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

FORM 10-Q

(Mark One)
☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2015

OR

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

For the transition period from ______ to ______

Commission file number: 333-06208

MODSYS INTERNATIONAL LTD.

(Exact name of registrant as specified in its charter)

Israel	**Not Applicable**
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	**(I.R.S. ID)**
601 Union Street, Suite 4616 Seattle, Washington	**98101**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code: (206) 395-4152

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer (Do not check if a smaller reporting company)	☐	Smaller reporting company	☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of August 10, 2015, there were 17,925,672 shares of the registrant's ordinary shares outstanding.

MODSYS INTERNATIONAL LTD.

Quarterly Report on Form 10-Q

For the Quarter Ended June 30, 2015

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Unless the context requires otherwise, all references in this Quarterly Report on Form 10-Q to "we," "our," "us," "the Company," and "Modern Systems" refer to ModSys International Ltd. and its subsidiaries unless otherwise indicated.

PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

ModSys International Ltd.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

	June 30, 2015 Unaudited	December 31, 2014 Audited
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 760	$ 449
Restricted cash	4	8
Trade accounts receivable, net	3,217	2,479
Other current assets	302	176
Total current assets	4,283	3,112
LONG-TERM ASSETS:		
Property and equipment, net	275	321
Goodwill	25,803	25,803
Intangible assets and others, net	5,079	5,587
Total long-term assets	31,157	31,711
Total assets	$ 35,440	$ 34,823
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Short-term bank credit and others	$ 2,802	$ 1,269
Trade accounts payable	1,508	1,230
Deferred revenue	531	546
Other current liabilities	875	989
Total current liabilities	5,716	4,034
LONG-TERM LIABILITIES:		
Accrued severance pay, net	243	229
Loans from others	114	114
Other non-current liabilities	255	40
Total long-term liabilities	612	383
Total equity	29,112	30,406
Total liabilities and equity	$ 35,440	$ 34,823

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

ModSys International Ltd.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	Three months ended June 30,		Six months ended June 30,	
	2015	**2014**	**2015**	**2014**
	Unaudited		**Unaudited**	
Revenue	**$ 3,327**	**$ 1,881**	**$ 5,613**	**$ 3,752**
Cost of revenue	1,663	1,029	3,363	2,011
Gross profit	1,664	852	2,250	1,741
Research and development costs	360	191	746	525
Selling, general and administrative expenses	1,173	1,458	2,493	2,873
Amortization of intangible assets	254	-	508	-
Total operating expenses	1,787	1,649	3,747	3,398
Operating loss	**(123)**	**(797)**	**(1,497)**	**(1,657)**
Financial income (expense), net	9	6	(38)	35
Loss before taxes on income	(114)	(791)	(1,535)	(1,622)
Taxes on income	1	-	14	18
Net loss	(115)	(791)	(1,549)	(1,640)
Less: Net income (loss) attributable to non-controlling interest	(7)	(40)	(62)	35
Net loss attributable to ModSys International Ltd. shareholders	**$ (108)**	**$ (751)**	**$ (1,487)**	**$ (1,675)**
Loss per share - basic and diluted:				
Attributable to the shareholders	$ (0.01)	$ (0.07)	$ (0.08)	$ (0.15)
Weighted average shares outstanding, basic and diluted	17,890	11,453	17,877	11,435

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

ModSys International Ltd.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(In thousands)

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
	Unaudited		Unaudited	
Net loss	$ (115)	$ (791)	$ (1,549)	$ (1,640)
Other comprehensive income	-	-	-	-
Total comprehensive loss	(115)	(791)	(1,549)	(1,640)
Comprehensive income (expense) attributable to the non-controlling interests	(7)	(40)	(62)	35
Comprehensive loss attributable to ModSys International Ltd. shareholders	$ (108)	$ (751)	$ (1,487)	$ (1,675)

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

ModSys International Ltd.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Three months ended June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
	Unaudited		Unaudited	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net loss	$ (115)	$ (791)	$ (1,549)	$ (1,640)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization	275	16	555	54
Increase (decrease) in accrued severance pay, net	15	(9)	14	(23)
Stock–based compensation	108	203	255	385
Change in fair value of derivatives	-	(20)	-	(45)
Changes in operating assets and liabilities:				
Decrease (increase) in trade receivables	(585)	118	(738)	(391)
Increase in other current assets	(63)	(12)	(115)	(60)
Increase (decrease) in trade payables	(95)	2	278	18
Increase (decrease) in other liabilities and deferred revenues	(169)	11	86	(462)
Net cash used in operating activities	(629)	(482)	(1,214)	(2,164)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of property and equipment	-	(2)	(8)	(41)
Net cash used in investing activities	-	(2)	(8)	(41)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Short term bank credit and others	583	-	1,533	-
Net cash provided by financing activities	583	-	1,533	-
NET CASH INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(46)	(484)	311	(2,205)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	806	871	449	2,592
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 760	$ 387	$ 760	$ 387

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

ModSys International Ltd.
NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS — Unaudited

Note 1 – Summary of Significant Accounting Policies:

A. The Company

ModSys International Ltd. (together with its subsidiaries, “the Company”, “we”, or “Modern Systems”) is an Israeli corporation, which operates in one operating segment of information technology (“IT”) modernization solutions.

Modern Systems develops and markets enterprise legacy migration solutions and provides tools and professional services to international markets through several entities including wholly-owned and majority-owned subsidiaries located in: the United States, the United Kingdom, Italy, Romania and Israel. These technologies and services allow businesses to migrate from their legacy mainframe and distributed information technology infrastructures to modern environments and programming languages.

The Company has incurred negative cash flows from operating activities and net losses in recent years. The Company currently uses its credit line with Comerica to support its negative cash flows position. Management believes that the Company’s current cash position, together with its available credit line and expected equity event secured by a commitment by one of the Company's major shareholder, is sufficient to support the ongoing operations for the next twelve months**.**

B. Recently Issued Accounting Pronouncements

In January 2015, the Financial Accounting Standard Board ("FASB") issued ASU 2015-01, "Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items", eliminates the requirement to consider whether an underlying event or transaction is extraordinary, and if so, to separately present the item in the income statement net of tax, after income from continuing operations. Items that are either unusual in nature or infrequently occurring will continue to be reported as a separate component of income from continuing operations. Alternatively, these amounts may still be disclosed in the notes to the financial statements. The same requirement has been expanded to include items that are both unusual and infrequent. ASU 2015-01 is effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted from the beginning of the fiscal year of adoption. The Company does not expect material impacts on its consolidated financial statements upon adoption.

In April 2015, the FASB issued ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs", requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability in a manner consistent with the treatment for debt discounts. The amendments in this update do not affect the recognition and measurement guidance for debt issuance costs. In addition, the ASU requires that the amortization of debt issuance costs be reported as interest expense. The standard is effective for fiscal years and the interim periods within those fiscal years beginning on or after December 15, 2015. ASU 2015-03 should be applied retrospectively to all prior periods presented in the financial statements, subject to the disclosure requirements for a change in an accounting principle. Early adoption is permitted for financial statements that have not been previously issued. The Company does not expect material impacts on its consolidated financial statements upon adoption.

C. Unaudited Interim Condensed Consolidated Financial Statements

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("GAAP") for interim financial information. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles in the United States for the annual financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2015 are not necessarily indicative of the results that may be expected for the year ended December 31, 2015. The interim financial statements should be read in conjunction with the financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

D. Use of Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

E. Principles of Consolidation

The consolidated financial statements include the Company's and its subsidiaries' financial statements. The consolidated financial statements of subsidiaries are included in the condensed consolidated financial statements from the date that control is achieved until the date that control ceases. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its operating activities. In assessing control, legal and contractual rights are taken into account. Intercompany transactions and balances are eliminated upon consolidation.

Note 2 – Mergers:

A. Zulu Intercompany Merger

On April 23, 2015, the Company completed the intercompany merger (the "Zulu Intercompany Merger") of their majority-owned subsidiary (71.83% ownership), Zulu Software, Inc. with and into the Company's wholly-owned subsidiary, MS Modernization Services, Inc. as part of an internal organizational restructuring. The name of the surviving subsidiary is MS Modernization Services, Inc. As a result of the intercompany merger, ModSys International Ltd. owns 88.7% of the surviving subsidiary MS Modernization Services, Inc.

B. Ateras Merger

On December 1, 2014, the Company completed a merger with Sophisticated Business Systems, Inc., a Texas corporation doing business as "Ateras." At the closing, BP-AT Acquisition LLC, a Delaware limited liability company and a direct, wholly-owned subsidiary of Modern Systems Corporation (f/k/a BluePhoenix Solutions USA, Inc.), a Delaware corporation and an indirect, wholly-owned subsidiary of ModSys International Ltd. merged with and into Ateras (the " Ateras Merger"). As a result of the Ateras Merger, the separate corporate existence of BP-AT Acquisition LLC ceased and Ateras continued as the surviving corporation and a wholly-owned subsidiary of Modern Systems Corporation. The new entity was then renamed MS Modernization Services, Inc. As of April 2015, due to the Zulu intercompany merger, MS Modernization Services is now a majority-owned subsidiary of Modern Systems and directly and indirectly owned at 88.7% by ModSys International Ltd. (See above discussion of Zulu Intercompany Merger).

Upon the closing of the Ateras Merger, the Company issued 6,195,494 unregistered ordinary shares, par value NIS 0.04 per share, to the former Ateras shareholders in exchange for the cancellation of the shares of Ateras stock held by such shareholders in connection with the Ateras Merger.

Due to the fact the issuance was of restricted shares, the purchase consideration was calculated with an 11.4% discount for lack of marketability on the share price as of the closing date. It should be noted that sales of restricted shares pursuant to Rule 144 were subject to a minimum six-month holding period and sales by any affiliate shareholders will be subject to volume and other limitations.

The purchase consideration was allocated to tangible assets and intangible assets acquired based on their estimated fair values using a purchase price allocation which was finalized during 2015 and performed by an independent third party. The fair value assigned to identifiable intangible assets acquired has been determined by using valuation methods that discount expected future cash flows to present value using estimates and assumptions determined by management. The Company determined that the fair values of assets acquired exceeded the purchase price by approximately $13.3 million, which is recognized as goodwill. Upon the purchase price allocation, an amount of $345 thousand was allocated to order backlog to be amortized over a 10 month period and an amount of $5.2 million was allocated to technology to be amortized over an 8.7 year period. The table below summarizes the estimates of the fair value of assets acquired at the purchase date.

Cash	$ 14
Receivables	1,094
Other current assets	187
Fixed assets	72
Other long-term assets	14
Accounts payable	(640)
Other accounts payable	(412)
Deferred revenue	(388)
Long-term liabilities	(40)
Identifiable intangible assets:	
Order backlog	345
Technology	5,228
Goodwill	13,302
Total assets acquired	$ 18,776

Note 3 – Goodwill:

The following is a summary of the change in the carrying amount of goodwill as of June 30, 2015 and December 31, 2014:

	June 30, 2015	December 31, 2014
	Unaudited	Audited
	(in thousands)	
Balance as of January 1.	$ 67,618	$ 54,316
Accumulated impairment losses at the beginning of the period	(41,815)	(41,815)
	25,803	12,501
Changes during the period		
Goodwill related to acquisition of Sophisticated Business Solutions, Inc. (“Ateras”)	-	13,302
Balance at end of period	$ 25,803	$ 25,803

Goodwill is not amortized, but rather is subject to an annual impairment test. The Company is one operating segment and one reporting unit related to its overall IT modernization .The goodwill impairment tests are conducted in two steps. In the first step, the Company determines the fair value of the reporting unit. If the net book value of the reporting unit exceeds its fair value, the Company would then perform the second step of the impairment test which requires allocation of the reporting unit’s fair value of all of its assets and liabilities in a manner similar to an acquisition cost allocation, with any residual fair value being allocated to goodwill. The implied fair value of the goodwill is then compared to the carrying value to determine impairment, if any.

The company determined the fair value of a reporting unit using the market approach which is based on the market capitalization by using the share price of the Company in the NASDAQ stock exchange and an appropriate control premium.

During the second quarter, due to a decrease of the Company's share price, the Company assessed whether goodwill impairment is required. As of June 30, 2015 the market capitalization of the Company was higher than the net book value of the reporting unit and therefore there was no need to calculate a control premium or to continue to step 2.

Note 4 – Fair Value Measurements:

The accounting guidance establishes a valuation hierarchy for disclosure of the inputs to valuation used to measure fair value. This hierarchy prioritizes the inputs into three broad levels as follows:

Level 1 – Observable inputs that reflect unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access at the measurement date.

Level 2 – Observable inputs such as quoted prices for similar instruments and quoted prices in markets that are not active, and inputs that are directly observable or can be corroborated by observable market data. The types of assets and liabilities included in Level 2 are typically either comparable to actively traded securities or contracts, such as treasury securities with pricing interpolated from recent trades of similar securities, or priced with models using highly observable inputs, such as commodity options priced using observable forward prices and volatilities.

Level 3 – Significant inputs to pricing that have little or no observability as of the reporting date. The types of assets and liabilities included in Level 3 are those with inputs requiring significant management judgment or estimation, such as the complex and subjective models and forecasts used to determine the fair value of financial instruments.

The Company's financial assets which are considered Level 1 are cash, cash equivalents and restricted cash.

Note 5 – Commitments and Contingencies:

A. Commitments

Israel’s Office of the Chief Scientist. One of the Company’s subsidiaries has entered into agreements with Israel’s Office of the Chief Scientist, or OCS. This subsidiary is obliged to pay royalties to the OCS at a rate of 3% on sales of the funded products, up to 100% of the dollar-linked grant received in respect of these products from the OCS. As of June 30, 2015, the contingent liability that was not recognized amounted to $185 thousand.

Ministry of Production in Italy. In July 2007, the Company’s subsidiary, Blue Phoenix I-Ter S.R.L. (“I-Ter”), received an amount of $585 thousand from the Ministry of Production in Italy for I-Ter’s Easy4Plan product. Easy4Plan is a workflow management tool designed for ISO9000 companies. 36.5% of the funds received constitute a grant, and the remaining 63.5%, is a 10-year loan to be repaid by I-Ter in annual installments until September 2018. The loan bears a minimal annual interest of 0.87% and is linked to the euro. As of June 30, 2015, the remaining loan balance was $154 thousand.

B. Contingencies

The Company evaluates estimated losses for indemnifications due to product infringement under FASB Topic ASC 450 “Contingencies”. At this time, it is not possible to determine the maximum potential amount under these indemnification clauses due to lack of prior indemnification claims and the unique facts and circumstances involved in each particular agreement. Such indemnification agreements may not be subject to maximum loss clauses. Historically, the Company has not incurred costs as a result of obligations under these agreements and has not accrued any liabilities related to such indemnification obligations in the Company’s financial statements.

Note 6 – Subsequent Events:

On July 13, 2015, the Company was notified by the Nasdaq Stock Market that it is not in compliance with Nasdaq Listing Rule 5450(b)(1)(C) requiring the Company to maintain a minimum $5 million of Market Value of Publicly Held Shares ("MVPHS"), which consists of shares not held directly or indirectly by an officer, director or any person who is the beneficial owner of more than 10 percent of the total shares outstanding. Pursuant to Nasdaq Listing Rules, the Company has 180 calendar days, or until January 11, 2016, to regain compliance with Nasdaq Listing Rule 5450(b)(1)(C). To regain compliance, the Company's MVPHS must close at $5 million or more for a minimum of 10 consecutive business days.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis provides information that we believe is relevant to an assessment and understanding of our results of operation and financial condition. You should read this analysis in conjunction with the attached condensed consolidated financial statements and related notes thereto, and with our audited consolidated financial statements and the notes thereto, included in our Annual Report on Form 10-K for the year ended December 31, 2014, as filed with the Securities and Exchange Commission (the "SEC") on March 31, 2015.

Forward-Looking Statements

The following discussion of our financial condition and results of operations contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are based on our management's beliefs and assumptions and on information currently available to our management. All statements other than statements of historical facts are "forward-looking statements" for purposes of these provisions, including those relating to future events or our future financial performance and financial guidance. In some cases, you can identify forward-looking statements by terminology such as "may," "might," "will," "should," "expect," "plan," "anticipate," "project," "believe," "estimate," "predict," "potential," "intend" or "continue," the negative of terms like these or other comparable terminology, and other words or terms of similar meaning in connection with any discussion of future operating or financial performance. These statements are only predictions. All forward-looking statements included in this document are based on information available to us on the date hereof, and we assume no obligation to update any such forward-looking statements. Any or all of our forward-looking statements in this document may turn out to be wrong. Actual events or results may differ materially. Our forward-looking statements can be affected by inaccurate assumptions we might make or by known or unknown risks, uncertainties and other factors. In evaluating these statements, you should specifically consider various factors, including the risks outlined under the caption "Risk Factors" set forth in Item 1A of Part II of this Quarterly Report on Form 10-Q, as well as those contained from time to time in our other filings with the SEC. We caution investors that our business and financial performance are subject to substantial risks and uncertainties.

Overview

We develop and market enterprise legacy migration solutions and provide tools and professional services to international markets through several entities including wholly-owned and majority-owned subsidiaries located in: the United States, the United Kingdom, Italy, Romania and Israel. These technologies and services allow businesses to migrate from their legacy mainframe and distributed information technology infrastructures to modern environments and programming languages.

Through the use of Modern Systems developed technology, we:

- perform conversions of legacy mainframe applications written in COBOL, CA GEN, Natural, PL/1 to Java and C# code;
- perform conversions of legacy databases such as IDMS, ADABAS, VSAM, IMS, ICL to SQL Server, Oracle and DB2 environments; and
- sell "Data Mirroring" software that allows companies to integrate legacy databases with modern relational databases on a routine/ongoing basis enabling data share across an organization without migration.

The technology conversion tools are proprietary to us and perform automated code conversion of programming languages and database replication.

In addition to the technology tools, we provide professional services for:

- project management of migrations;
- understanding and mapping of the applications;
- testing;
- remediation; and
- on-going monitoring and management of the environments.

As of June 30, 2015, we had cash and cash equivalents of $760,000 and negative working capital of $1.4 million. We believe our current cash and cash equivalents, together with the available borrowing under our credit facility and our expected equity event secured by a commitment by one of our major shareholders, is sufficient to fund our operations for the next twelve months. Failure to raise the required financing will result in an event of default under our credit agreement, which could cause our lender to declare all obligations immediately due and payable, to reclaim or sell certain of our assets that constitute collateral or to take other remedies set forth in the credit agreement.

Challenges and Opportunities

In a market that continues to innovate and evolve, new technologies and practices, by definition, render existing technology deployments out-of-date or legacy. By the same measure, however, in order for us to capitalize on the constant source of legacy solutions, we must evolve our solutions portfolio to deal with the changing definition of what constitutes "leading edge" technologies and the growing set that is deemed to be "legacy." Over time, as one legacy set of technologies is gradually replaced, we must be capable of addressing the modernization needs of the next set of aging technologies. However, these cycles are slow and provide us with the time to update our technology and products and build the necessary knowledge in house.

The fact that the modernization needs of the market are evolving on a constant basis, necessitates that we are capable of tracking and predicting changes in technologies. Anticipating the needs of the information technology modernization market and delivering new solutions that satisfy the emerging needs is a critical success factor.

However, even if we develop modernization solutions that address the evolving needs of the legacy information technology modernization market, we cannot assure that there will be a predictable demand for our offerings. Variables ranging from the macro-economic climate, to the competitive landscape, and to the perceived need that the enterprise market has for a specific modernization solution, may have an impact of a longer sales cycle or increased pricing pressure.

In addition, we must retain our skilled personnel in the fields of project management, legacy systems, and leading modern technologies. Maintaining and growing the requisite skill base can be problematic. Personnel with an understanding of legacy technologies are a finite resource and the market for recruiting and retaining such workforce can be highly competitive.

Recent Developments

On July 13, 2015, we were notified by the Nasdaq Stock Market that we are not in compliance with Nasdaq Listing Rule 5450(b)(1)(C) requiring us to maintain a minimum $5,000,000 of Market Value of Publicly Held Shares (“MVPHS”), which consists of shares not held directly or indirectly by an officer, director or any person who is the beneficial owner of more than 10 percent of the total shares outstanding. Pursuant to Nasdaq Listing Rules, we have 180 calendar days, or until January 11, 2016, to regain compliance with Nasdaq Listing Rule 5450(b)(1)(C). To regain compliance, our MVPHS must close at $5,000,000 or more for a minimum of 10 consecutive business days. No guarantee exists that we will be able to regain compliance with this listing rule. We may elect to apply to transfer its securities to the Nasdaq Capital Market, which has a reduced MVPHS requirement, if it satisfies the requirements for continued inclusion in that market.

Critical Accounting Policies

We prepare our consolidated financial statements in conformity with generally accepted accounting principles in the United States. Accordingly, we are required to make certain estimates, judgments, and assumptions that we believe are reasonable based upon the information available. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the periods presented.

There have been no material changes to our critical accounting policies and estimates as compared to the critical accounting policies and estimates described in our Annual Report on Form 10-K, filed with the SEC on March 31, 2015.

Recently Issued Accounting Pronouncements

In January 2015, the Financial Accounting Standard Board ("FASB") issued ASU 2015-01, "Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items", eliminates the requirement to consider whether an underlying event or transaction is extraordinary, and if so, to separately present the item in the income statement net of tax, after income from continuing operations. Items that are either unusual in nature or infrequently occurring will continue to be reported as a separate component of income from continuing operations. Alternatively, these amounts may still be disclosed in the notes to the financial statements. The same requirement has been expanded to include items that are both unusual and infrequent. ASU 2015-01 is effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted from the beginning of the fiscal year of adoption. The Company does not expect material impacts on its consolidated financial statements upon adoption.

In April 2015, the FASB issued ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs", requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability in a manner consistent with the treatment for debt discounts. The amendments in this update do not affect the recognition and measurement guidance for debt issuance costs. In addition, the ASU requires that the amortization of debt issuance costs be reported as interest expense. The standard is effective for fiscal years and the interim periods within those fiscal years beginning on or after December 15, 2015. ASU 2015-03 should be applied retrospectively to all prior periods presented in the financial statements, subject to the disclosure requirements for a change in an accounting principle. Early adoption is permitted for financial statements that have not been previously issued. The Company does not expect material impacts on its consolidated financial statements upon adoption.

Our Reporting Currency

The currency of the primary economic environment in which we, and most of our subsidiaries operate, is the U.S. dollar. In addition, a substantial portion of our revenue and costs are incurred in dollars. Thus, the dollar is our functional and reporting currency.

We follow FASB ASC Topic 830 “Foreign currency translation” and accordingly non-monetary transactions denominated in currencies other than the dollar are measured and recorded in dollar at the exchange rates prevailing at transaction date. Monetary assets and liabilities denominated in currencies other than the dollar are translated at the exchange rate on the balance sheet date. Exchange gain or losses on foreign currency translation are recorded as income.

Following is a summary of the most relevant monetary indicators for the reported periods:

For the six months ended June 30,	Revaluation (Devaluation) of Israeli new shekel, or NIS, against the US$	Revaluation (Devaluation) of euro against the US$
	%	%
2015	(3.09)	(9.55)
2014	(0.95)	0.86

Operating Results

The following table presents the percentage relationships of certain items from our consolidated statement of operations, as a percentage of total revenue for the periods indicated:

Statement of Operations Data (US$ and as a Percentage of Revenue):

	Three months ended June 30,			
	2015		2014	
	(in Thousands)	%	(in Thousands)	%
Revenue	$ 3,327	100.0	$ 1,881	100.0
Cost of revenue	1,663	50.0	1,029	54.7
Gross profit	1,664	50.0	852	45.3
Research and development costs	360	10.8	191	10.2
Selling, general, and administrative expenses	1,173	35.3	1,458	77.5
Amortization of intangible assets	254	7.6	-	-
Operating loss	(123)	(3.7)	(797)	(42.4)
Financial income, net	9	0.3	6	0.3
Loss before taxes on income	(114)	(3.4)	(791)	(42.1)
Taxes on income	1	0.0	-	0.0
Net loss	(115)	(3.5)	(791)	(42.1)
Net loss attributable to non-controlling interest	(7)	(0.2)	(40)	(2.1)
Loss attributable to ModSys International Ltd. shareholders	(108)	(3.2)	(751)	(39.9)

	Six months ended June 30,			
	2015		2014	
	(in Thousands)	%	(in Thousands)	%
Revenue	$ 5,613	100.0	$ 3,752	100.0
Cost of revenue	3,363	59.9	2,011	53.6
Gross profit	2,250	40.1	1,741	46.4
Research and development costs	746	13.3	525	14.0
Selling, general, and administrative expenses	2,493	44.4	2,873	76.6
Amortization of intangible assets	508	9.1	-	-
Operating loss	(1,497)	(26.7)	(1,657)	(44.2)
Financial income (expense), net	(38)	(0.7)	35	0.9
Loss before taxes on income	(1,535)	(27.3)	(1,622)	(43.2)
Taxes on income	14	0.2	18	0.5
Net loss	(1,549)	(27.6)	(1.640)	(43.7)
Net income (loss) attributable to non-controlling interest	(62)	(1.1)	35	(0.9)
Loss attributable to ModSys International Ltd. shareholders	(1,487)	(26.5)	(1,675)	(44.6)

Three and Six Months Ended June 30, 2015 and 2014

Revenue. Our revenue is generated from services and products sales. Our services include fixed-price projects, consulting fees, and long-term maintenance contracts. Our product sales are licensing fees. Total revenue was $3.3 million for the three months ended June 30, 2015, a 77% increase compared to revenue of $1.9 million for the three months ended June 30, 2014. Total revenue was $5.6 million for the six months ended June 30, 2015, a 50% increase when compared to $3.8 million for the six months ended June 30, 2014.

Of the total revenue for the three months ended June 30, 2015, $2.8 million was generated from services, a 100% increase compared to $1.4 million of service revenue for the three months ended June 30, 2014. Of the total service revenue for the three months ended June 30, 2015, $1.2 million or 43% was due to projects acquired from the Ateras Merger. The majority of the Ateras Merger projects are fixed-price projects. Of the total revenue for the six months ended June 30, 2015, $4.9 million was generated from services, which is a 50% increase compared to $3.3 million of service revenue for the six months ended June 30, 2014. Of the service revenue for the six months ended June 30, 2015, $2.0 million or 41% was due to projects acquired from the Ateras Merger.The increase in service revenue for both periods is due to an increase in revenue from our fixed price projects offset by a reduction in our maintenance contract revenue.

Of the total revenue for the three months ended June 30, 2015, $496,000 was generated from licensing fees, a 7% increase compared to $465,000 of licensing fees for the three months ended June 30, 2014. Of the total revenue for the six months ended June 30, 2015, $714,000 was generated from licensing fees. a 49% increase compared to $478,000 of licensing fees for the six months ended June 30, 2014. The Ateras Merger provided 2% and 5%, respectively, of the licensing fees for the three months ended and the six months ended June 30, 2015.

Cost of revenue. Cost of revenue consists of salaries of our employees and independent subcontractors on our implementation team, as well as other direct costs. Cost of revenue was $1.7 million for the three months ended June 30, 2015, a 62% increase when compared to $1.0 million for the three months ended June 30, 2014. Cost of revenue was $3.4 million for the six months ended June 30, 2015, a 67% increase when compared to $2.0 million for the six months ended June 30, 2014. Cost of revenue as a percentage of revenue was 50% for the three months ended June 30, 2015 compared to 54.7% for the three months ended June 30, 2014. The increase in cost of revenue is attributable to the increase in subcontractor costs arising from the Ateras merger. Cost of revenue as a percentage of revenue was 59.9% for the six months ended June 30, 2014 compared to 53.6% for the six months ended June 30, 2014.

Gross profit. Gross profit was $1.7 million for the three months ended June 30, 2015, a 95% increase when compared to $0.9 million for the three months ended June 30, 2014. Gross profit for the six months ended June 30, 2015 was $2.3 million, a 29% increase from $1.7 million for the six months ended June 30, 2014. Gross profit as a percentage of revenue was 50% for the three months ended June 30, 2015 compared to 45.3% for the three months ended June 30, 2014. The increase is primarily attributable to an increase in revenue, offset by an increase in cost of revenue due to the increase in subcontractor costs. Gross profit as a percentage of revenue was 40.1% for the six months ended June 30, 2015 compared to 46.4% for the six months ended June 30, 2014. The decrease is attributable to greater revenue in the six months ended June 30, 2015, offset by the increase in cost of revenue due to the increase in subcontractor costs.

Research and development costs. Research and development costs consist of salaries and consulting fees that we pay to professionals engaged in the development of new software and related methodologies. Our research and development costs are allocated among our modernization suite of solutions and are charged to operations as incurred. Research and development costs were $360,000 for the three months ended June 30, 2015, an 88% increase when compared to $191,000 for the three months ended June 30, 2014. The increase was the result of the additional research and development employee headcount related to the Ateras merger. Research and development costs for the six months ended June 30, 2015 were $746,000 compared to $525,000 for the six months ended June 30, 2014, an increase of 42%. The increase was the result of the additional research and development employee headcount related to the Ateras merger. As a percentage of revenue, research and development costs were 10.8% for the three months ended June 30, 2015 and 10.2% for the three months ended June 30, 2014. As a percentage of revenue, research and development costs were 13.3% for the six months ended June 30, 2015 and 14% for the six months ended June 30, 2014.

Selling, general, and administrative expenses. Selling, general, and administrative expenses consist primarily of wages and related expenses, travel expenses, sales commissions, selling expenses, marketing and advertising expenses, rent, insurance, utilities, professional fees, and depreciation. Selling, general, and administrative expenses were $1.2 million for the three months ended June 30, 2015, a 20% decrease when compared to $1.5 million for the three months ended June 30, 2014. Selling, general, and administrative expenses for the six months ended June 30, 2015 were $2.5 million compared to $2.9 million for the six months ended June 30, 2014, a decrease of 13%. The decrease for both periods was the result of a reduction in employee costs due to a reduced number of employees and a reduction in legal costs offset with additional rent expense for the additional office due to the Ateras merger. As a percentage of revenue, selling, general and administrative expenses were 35.3% for the three months ended June 30, 2015 compared to 77.5% for the three months ended June 30, 2014. As a percentage of revenue, selling, general and administrative expenses were 44.4% for the six months ended June 30, 2015 compared to 76.6% for the six months ended June 30, 2014.

Amortization of intangible assets. We had amortization expense of $254,000 for the three months ended June 30, 2015, compared to no expense for the three months ended June 30, 2014. Amortization expenses for the six months ended June 30, 2015 were $508,000, compared to no expenses for the six months ended June 30, 2014. The increase was the result of the amortization cost of intangible assets related to the Ateras merger.

Financial income (expense), net. Financial expenses include interest paid on our bank loan and loans extended by others and expenses from fluctuations in foreign currency exchange rate. Financial income is the result of the effect of the change in our stock price and the effect on the value of our warrants for 2014, and from fluctuations in foreign currency exchange rates in 2014 and 2015. Our financial income was $9,000 for the three months ended June 30, 2015, when compared to financial income of $6,000 for the three months ended June 30, 2014. Our financial expense was $38,000 for the six months ended June 30, 2015 compared to financial income of $35,000 for the six months ended June 30, 2014.

Taxes on income. We had income tax expense of $1,000 for the three months ended June 30, 2015, compared to no expenses for the three months ended June 30, 2014. The tax expense for the three months ended June 30, 2015 is current tax expense. For the six months ended June 30, 2015, we had income tax expense of $14,000 compared to $18,000 for the six months ended June 30, 2014. The tax expense for the six months ended June 30, 2015 and 2014 is current tax expense.

Net loss attributable to non-controlling interest. Net loss attributable to non-controlling interest was $7,000 for the three months ended June 30, 2015, when compared to net loss of $40,000 for the three months ended June 30, 2014, and represented the non-controlling share in the net loss of our subsidiary, Zulu Software Inc. until the merger of Zulu into MS Modernization Services, Inc. The non-controlling interest now represents the non-controlling share in the net income (loss) of our subsidiary, MS Modernization Services, Inc. Net loss attributable to non-controlling interest for the six months ended June 30, 2015 was $62,000 compared to net income of $35,000 for the six months ended June 30, 2014.

Liquidity and Capital Resources

We require cash to fund our operations and we have experienced significant losses and negative cash flows in the recent past. Since our inception, we have funded our operations primarily through the public and private sales of our securities, cash received from customers and through our borrowing under our credit facility and otherwise. As of June 30, 2015, we had cash and cash equivalents of $760,000 and negative working capital of $1.4 million. As of December 31, 2014, we had cash and cash equivalents of $449,000 and negative working capital of $922,000. As of June 30, 2015, we had drawn down $2.8 million under our credit facility described below. As of June 30, 2015, our available borrowing under the credit facility was $360,000.

Management believes that our current cash and cash equivalents, together with the available borrowing under our credit facility and expected equity event secured by a commitment by one of the Company's major shareholder, is sufficient to fund our operations for the next twelve months. Failure to raise the required financing will result, or other changes in our financial condition may result, in an event of default under our credit agreement, which could cause our lender to declare all obligations immediately due and payable, to reclaim or sell certain of our assets that constitute collateral or to take other remedies set forth in the credit agreement.

We announced on July 31, 2015, that our Board of Directors has formed a special committee to explore strategic alternatives to enhance shareholder value. These alternatives could include, among others, acquisitions, possible joint ventures, strategic partnerships or alliances, or other possible transactions. We are also continuing to seek to reduce operating expenses.

Credit Facility

In September 2014, we entered into an amendment to our existing loan agreement with Comerica Bank to: (i) increase the non-formula revolving line up to the amount of $2 million backed by guarantees; (ii) increase the borrowing base revolving line amount up to $1.5 million upon the closing of the Ateras merger; and (iii) extend the loan maturity date to December 31, 2015. The amendment has a financial covenant for a minimum liquidity ratio. Our obligations under the amendment are secured by a security interest in our copyrights, trademarks, and patents. The remaining substantive provisions of the credit facility were not materially changed by this amendment.

In May 2015, we entered into an additional amendment to our existing loan agreement with Comerica Bank to among other things: (i) extend the maturity date of the non-formula revolving line and the revolving line to June 30, 2016; (ii) require us to raise new equity, on terms and from investors satisfactory to the lender, of not less than $2.5 million on or before December 31, 2015, which was secured by a commitment by one of our major shareholders; and (iii) increase the number of trade accounts for which the concentration limit is not applicable.

As of June 30, 2015, we had borrowed $2.0 million against our non-formula revolving line and $772,000 against the revolving line. The principal terms of the agreement are as follows:

- non-formula revolving line in the amount up to $2,000,000 backed by a guarantee from one of the major shareholders;
- revolving line (accounts receivable based) loan in the amount up to $1,500,000;
- both the non-formula revolving line and revolving line loan are at market based interest rates based on Prime + a margin; and
- financial covenant for a minimum bank debt liquidity coverage ratio, calculated as a ratio of liquidity to all indebtedness , other than indebtedness that is guaranteed, to the bank.

Cash Used in Operating Activities

Net cash used in operating activities during the six months ended June 30, 2015, was $1.2 million compared to $2.2 million during the six months ended June 30, 2014. The change is primarily attributable to an increase in revenue, an increase in our trade receivables , and an increase in other liabilities and deferred revenue. The increase in trade receivables is largely driven by the additional trade receivables associated with the additional Ateras merger projects.

Cash Used in Investment Activities

Net cash used in investment activities during the six months ended June 30, 2015 was $8,000 compared to $41,000 during the six months ended June 30, 2014. Net cash used in investment activities in the six months ended June 30, 2015 and 2014 include purchases of computers and computer software.

Cash Provided by Financing Activities

Net cash provided by financing activities was $1.5 million during the six months ended June 30, 2015. As of June 30, 2015, we borrowed $2.0 million against our non-formula revolving line and $772,000 against the revolving line (accounts receivable based).

Contractual Commitments and Guarantees

Chief Scientist

One of our subsidiaries has entered into an agreement with Israel's Office of the Chief Scientist, or OCS. This subsidiary is obliged to pay royalties to the OCS at a rate of 3% on sales of the funded products, up to 100% of the dollar-linked grant received in respect of these products from the OCS. As of June 30, 2015, the contingent liability amounted to $185,474.

Ministry of Production in Italy

During 2007, our subsidiary, Blue Phoenix I-Ter S.R.L. ("I-Ter"), received an amount of $585,000 from the Ministry of Production in Italy under a plan called Easy4Plan. Approximately $371,000 of that amount is in the form of a 10-year loan payable in equal annual installments until September 2018. The loan bears an annual interest of 0.87% and is linked to the euro. As of June 30, 2015, the remaining loan balance was approximately $154,000. Our subsidiary's operations have been reduced significantly, and if this trend continues, the Ministry of Production in Italy may require the immediate repayment of the full outstanding loan amount. We do not currently anticipate this occurrence.

Operating Leases

We are committed under operating leases for rental of office facilities, vehicles, and other equipment for the years 2015 until 2016. Operating lease payments for the six months ended June 30, 2015 were approximately $204,000.

Indemnification of Office Holders

We entered into an undertaking to indemnify our office holders in specified limited categories of events and in specified amounts, subject to certain limitations.

Off Balance Sheet Arrangements

We did not have any off balance sheet arrangements in the six months ended June 30, 2015.

Effective Corporate Tax Rates

Under Israeli law, Israeli corporations are generally subject to 26.5% corporate tax as of January 1, 2015. An Israeli company is subject to tax on its worldwide income. An Israeli company that is subject to Israeli taxes on the income of its non-Israeli subsidiaries will receive a credit for income taxes paid by the subsidiary in its country of residence, subject to certain conditions. Israeli tax payers are also subject to tax on income from a controlled foreign corporation, according to which an Israeli company may become subject to Israeli taxes on certain income of a non-Israeli subsidiary, if such subsidiary's primary source of income is a passive income (such as interest, dividends, royalties, rental income, or capital gains).

Our international operations are taxed at the local effective corporate tax rate in the countries where our activities are conducted. We have significant amounts of carry forward losses, including at Modern Systems Corporation from which our headquarters operates. Therefore, we do not estimate that changing our headquarters from Herzliya, Israel to Seattle, Washington in June 2013 had a material impact on the amount of future tax payments until these carry forward losses are utilized or until we have taxable income on an ongoing basis.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As of June 30, 2015, we have an outstanding $154,000 loan to the Ministry of Production in Italy payable in annual installments until September 2018. The loan bears a minimal annual interest of 0.87% and is linked to the euro.

Fluctuation in foreign currency exchange rates, such as euro or NIS versus the dollar may have an impact on our operating results and financial condition. Exposure relating to these exchange rates is recorded under the financial expenses line item of our consolidated statements of operations. Accordingly, financial expenses may fluctuate significantly from quarter to quarter.

The table below details the balance sheet main currency exposure. The details are provided by currency, as of June 30, 2015 (at fair value):

	Euro	British Pound	NIS	USD	Other	Total
Accounts Receivable	2%	13%	4%	81%	*%	100%
Accounts Payable	6%	4%	17%	73%	*%	100%

* Less than 1%.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

An evaluation was performed by our Chief Executive Officer and Chief Financial Officer of the effectiveness of the design and operation of our disclosure controls and procedures as defined in the Rules 13(a)-15(e) of the Exchange Act. Disclosure controls and procedures are those controls and procedures designed to provide reasonable assurance that the information required to be disclosed in our Exchange Act filings is (1) recorded, processed, summarized and reported within the time periods specified in SEC's rules and forms, and (2) accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2015, our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the quarter ended June 30, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal controls, will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within Modern Systems have been detected.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we may become involved in legal proceedings arising in the ordinary course of our business. We are not presently a party to any legal proceedings that, if determined adversely to us, would individually or taken together have a material adverse effect on our business, operating results, financial condition or cash flows.

Item 1A. Risk Factors

You should carefully consider the following risk factors, in addition to the other information contained in this Quarterly Report on Form 10-Q, including our condensed consolidated financial statements and related notes. If any of the events described in the following risk factors occurs, our business, operating results and financial condition could be seriously harmed. This Quarterly Report on Form 10-Q also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of factors that are described below and elsewhere in this Quarterly Report on Form 10-Q.

Risks Related to Our Business

In the past few years, we have experienced significant losses and negative cash flows from operations. If these trends continue our business, financial condition and results of operations would be materially adversely affected.

We have incurred significant losses and negative cash flows from operations in the recent past. We had net losses of $1.5 million and $3.4 million in the six months ended June 30, 2015 and the twelve months ended December 31, 2014, respectively. Our negative cash flows from operations were $1.2 million for the six months ended June 30, 2015 and $3.5 million for the twelve months ended December 31, 2014. As of June 30, 2015, we had cash and cash equivalents of $760,000 compared to cash and cash equivalents of $449,000 as of December 31, 2014. These results have had a negative impact on our financial condition. We have primarily funded our loss from operations and negative cash flow through capital raised from one of our shareholders and with borrowings under our credit facility. As of June 30, 2015, our available borrowing under our credit facility was $360,000. There can be no assurance that our business will become profitable in the future, that additional losses and negative cash flows from operations will not be incurred, that we will be able to improve our liquidity or that we will be able to find alternative financing if necessary. Management believes that our current cash and cash equivalents, together with the available borrowing under our credit facility and expected equity event secured by a commitment by one of the Company's major shareholder, is sufficient to fund our operations for the next twelve months.

We announced on July 31, 2015 that our Board of Directors has formed a special committee to explore strategic alternatives to enhance shareholder value. These alternatives could include, among others, acquisitions, possible joint ventures, strategic partnerships or alliances, or other possible transactions. There can be no assurance that this exploration process will result in any transaction. We do not currently intend to disclose further developments with respect to this process, unless and until our Board of Directors approves a specific transaction or otherwise concludes the review of strategic alternatives. We are also continuing to seek to reduce operating expenses.

We have a credit facility which expires June 30, 2016. There is no assurance that this credit facility will be available in the future or that we will be able to obtain financing from other entities.

We currently maintain a credit facility which expires June 30, 2016. If we continue incurring significant losses and negative cash flows, as we have in the recent past, we will be required to extend the term of this credit facility, raise funds or obtain alternative financing in order to finance our operations. In addition, the terms of our credit facility require that we raise $2.5 million from investors prior to December 31, 2015. We cannot assure you that such financing would be available, either from investors or financial institutions. Failure to raise the required financing will result, or other changes in our financial condition may result, in an event of default under our credit agreement, which could cause our lender to declare all obligations immediately due and payable, to reclaim or sell certain of our assets that constitute collateral or to take other remedies set forth in the credit agreement.

Banks usually require as a condition to providing financing, compliance with covenants regarding our maintenance of certain financial ratios. In addition, those covenants may include restrictions on the operation of our business, including, among other things, our ability to pledge our assets, dispose of assets, issue certain securities, make loans or give guarantees, make certain acquisitions, and engage in mergers or consolidations. Additional restrictions may stipulate the balances we can maintain in non-affiliated banks. We cannot assure you that we will be able to maintain our outstanding credit facility or negotiate new credit facilities on favorable terms to us. Our ability to obtain financing, when required, depends in part on the future performance of our business and the condition of the capital markets.

If we do not reach agreements with financing institutions, when required, we would encounter difficulties in funding our operations. In addition, we cannot assure you that we would be able to raise cash or obtain financing from other third parties, including our shareholders. Moreover, even if we succeed in negotiating financing arrangements with third parties, we cannot assure you that the terms of such arrangements would be favorable to us or advantageous to our existing shareholders.

Raising money to finance our operations involves, from time to time, issuance of equity securities which may dilute your holdings in our company.

In order to finance our operations, we may raise capital from time to time from our shareholders or other third parties. Our arrangements with any such parties may include the issuance of equity or debt securities or conversion options of loans and interest accrued thereon into equity securities. For example, in 2013, we issued shares to one of our major shareholders, Prescott Group Aggressive Small Cap Master Fund, G.P, through a private placement, which also included an anti-dilution clause for the potential issuance of additional shares upon the occurrence of certain events. The issuance of equity securities to certain investors would dilute your holdings in our company**.** In addition, our ability to obtain financing, when required, depends in part on the future performance of our business and the condition of the capital markets.

Unfavorable changes in economic conditions and decreases in capital expenditures by our customers have had, and could continue to have, a material adverse effect on our business and results of operations.

Our revenue is dependent upon the strength of the worldwide economy. In particular, we depend upon our customers making continuing capital investments in information technology products, such as those marketed and sold by us. These spending levels are impacted by the worldwide level of demand for enterprise legacy information technology modernization solutions and services. Demand is normally a function of prevailing global or regional economic conditions and is negatively affected by a general economic slow-down as consumers reduce discretionary spending on information technology upgrades.

Although there have been indications that the economy may be improving in many areas, this has not resulted in an increase in purchases by our customers. Our revenue was $5.6 million for the six months ended June 30, 2015 and $3.8 million for the six months ended June 30, 2014.

We have identified and continue to experience, from time to time, delays in purchase order placement by our customers and longer sales cycles. The negotiation process with our customers has developed into a lengthy and expensive process. Customers with excess information technology resources have chosen and may continue to choose to develop in-house software solutions rather than obtain those solutions from us. Moreover, competitors may respond to challenging market conditions by lowering prices and attempting to lure away our customers. In addition, we anticipate that our low liquidity and financial condition may negatively impact the willingness of customers to place purchase orders with us.

We cannot predict the timing, strength or duration of any economic slowdown or any subsequent recovery. If the conditions in the markets in which we operate remain the same or worsen from present levels, or if customers are dissuaded to contract us due to our financial condition, our business, financial condition and results of operations would be materially and adversely affected.

We may not realize the anticipated benefits of the Ateras merger.

On December 1, 2014, we completed a merger with Sophisticated Business Systems, Inc., a Texas corporation doing business as "Ateras.". We cannot be assured that we will realize the anticipated benefits from this merger. The anticipated benefits depend, in part, upon our integration of the Ateras business into ours, our ability to retain the customers of Ateras, and our ability to otherwise manage the operations historically conducted by Ateras. We may face difficulty or unanticipated expense in retaining customers, or marketing or selling the Ateras products and services. Any of these circumstances could prevent us from realizing the anticipated benefits of the Ateras merger, which could cause our business to suffer. We face similar risks with respect to any other acquisitions or strategic transactions we may undertake in the future from time to time.

The loss of customers, generally, and in particular the loss of a significant customer or several customers that, together, account for a significant portion of our revenue, could cause a reduction in our revenue and profitability, which in turn could materially adversely affect our business, financial condition and results of operations.

We do not know if, or for how much longer, our customers will continue to purchase the products and services that we offer. A small number of customers has accounted for a substantial portion of our current and historical net revenue. For the six months ended June 30, 2015, Dell USA L.P. accounted for 19.2%, IBM Corporation accounted for 16.7%, Fujitsu Canada Inc. accounted for 12.3% and Transoft Group Limited accounted for 14.9% of our revenue.

The loss of any major customer or a decrease or delay in orders or anticipated spending by such customer could materially reduce our revenue and profitability. The loss of several customers at once may impact our revenue and profitability significantly, even if each of those customers, separately, has not accounted for a significant amount of our revenue. The loss of customers may cause a significant decrease in revenue and profitability which may adversely affect our business, results of operations and financial condition. Our customers could also engage in business combinations, which could increase their size, reduce their demand for our products and solutions as they recognize synergies or rationalize assets and increase or decrease the portion of our total sales concentration to any single customer.

If we fail to estimate accurately the costs of fixed-price contracts, we may incur losses.

We derive a substantial portion of our revenue from engagements on a fixed-price basis. We price these commitments based upon estimates of future costs. We bear the risk of faulty estimates and cost overruns in connection with these commitments. Our failure to accurately estimate the resources required for a fixed-price project, to accurately anticipate potential wage increases, or to complete our contractual obligations in a manner consistent with the project plan could materially adversely affect our business, operating results, and financial condition.

If we are unable to effectively control our costs while maintaining our customer relationships; our business, results of operations and financial condition could be adversely affected.

It is critical for us to appropriately align our cost structure with prevailing market conditions to minimize the effect of economic downturns on our operations and, in particular, to continue to maintain our customer relationships while protecting profitability and cash flow. However, we are limited in our ability to reduce expenses due to the ongoing need to maintain our worldwide customer service and support operations and to invest in research and development. In circumstances of reduced overall demand for our products, or if orders received differ from our expectations with respect to the product, volume, price or other items, our fixed cost structure could have a material adverse effect on our business and results of operations. If we are unable to align our cost structure in response to economic downturns on a timely basis, or if such implementation has an adverse impact on our business or prospects, then our financial condition, results of operations and cash flows may be negatively affected.

We continue to assess our infrastructure costs and reduce workforce and labor costs as they constitute a substantial portion of our costs of revenue, selling and administrative expenses and research and development expenses.

Conversely, adjusting our cost structure to fit economic downturn conditions may have a negative effect on us during an economic upturn or periods of increasing demand for our information technology solutions. If we have to aggressively reduce our costs, we may not have sufficient resources to capture new information technology projects, timely comply with project delivery schedules and meet customer demand. If we are unable to effectively manage our resources and capacity to capitalize on periods of economic upturn, there could be a material adverse effect on our business, financial condition, results of operations and cash flows.

If we are unable to accurately predict and respond to market developments or demands, our business would be adversely affected.

The information technology modernization business is characterized by rapidly evolving technology and methodologies. This makes it difficult to predict demand and market acceptance for our technology and services. In order to succeed, we need to adapt the solutions we offer in order to keep up with technological developments and changes in customer needs. We cannot guarantee that we will succeed in enhancing our technology and services, or developing or acquiring new technology that adequately addresses changing customer requirements. We also cannot assure you that the technology and services we offer will be accepted by customers. If our technology and services are not accepted by customers, our future revenue and profitability will be adversely affected. Changes in technologies, industry standards, the regulatory environment and customer requirements, and new product introductions by existing or future competitors, could render our existing solutions obsolete and unmarketable, or require us to enhance our current technology or develop new technology. This may require us to expend significant amounts of money, time, and other resources to meet the demand. This could strain our personnel and financial resources. Furthermore, modernization projects deal with customer mission critical applications, and therefore encapsulate risk for the customer. Therefore, customers are more cautious in entering into transactions with us, and accordingly, the process for approval and signing of deals may be lengthy and expensive. We make efforts to mitigate such risks associated with legacy modernization projects but from time to time we encounter delays in the negotiation process.

We may experience significant fluctuations in our quarterly and annual results, which makes it difficult to make reliable period-to-period comparisons and may contribute to volatility in the market price of our ordinary shares.

Our quarterly and annual results of operations have fluctuated significantly in the past, and we expect them to continue to fluctuate significantly in the future. These fluctuations can occur as a result of any of the following events:

- global economic trends;
- global political trends, in particular, in the middle east and in countries in which we operate;
- adverse economic conditions in various geographic areas where our customers and potential customers operate;
- acquisitions, mergers or disposition of companies and assets;
- timing of completion of specified milestones and delays in implementation;
- timing of product releases;
- timing of contracts;
- changes in selling and marketing expenses, as well as other operating expenses; and
- currency fluctuations and financial expenses related to our financial instruments.

As a result of the foregoing, we believe that period-to-period comparisons of our historical results of operations are not necessarily meaningful and that you should not rely on them as an indication for future performance. Also, it is possible that our quarterly and annual results of operations may be below the expectations of public market analysts and investors.

A delay in collecting our fees could result in cash flow shortages, which in turn may significantly impact our financial results.

Typical modernization projects which deploy our solutions are long-term projects. Therefore, payment for these projects or a substantial portion of our fees may be delayed until the successful completion of specified milestones. In addition, the payment of our fees is dependent upon customer acceptance of the completed work and our ability to collect the fees. Although the timing of receipt of our fees varies, we incur the majority of our expenses on a current basis. As a result, a delay in the collection of our fees could result in cash flow shortages.

Our results have historically been materially adversely affected by the impairment of the value of certain intangible assets, and we may experience impairment charges in the future.

The assets listed in our consolidated balance sheet as of June 30, 2015 and December 31, 2014, include, among other things, goodwill valued at $25.8 million and technology valued at $5.1 million. Technology is amortized over an 8.7 year period. The applicable accounting standards require that goodwill is not amortized, but rather is subject to an annual impairment test, as well as periodic impairment tests if impairment indicators are present.

During the second quarter of 2015, our share price decreased and since it is one of the impairment indicators, we performed an impairment test and no goodwill impairment was identified. Also, in each of the fourth quarters of 2014 and 2013, impairment tests were performed and no goodwill impairment was identified.

If we continue to experience reduced cash flows and our market capitalization falls below the value of our equity, or actual results of operations differ materially from our modeling estimates and related assumptions, we may be required to record additional impairment charges for our goodwill. If our goodwill or other intangible assets are deemed to be impaired in whole or in part due to our failure to achieve our goals, we could be required to reduce or write off such assets. Such write-offs could have a material adverse effect on our business and operating results.

If we are unable to attract, train, and retain qualified personnel, we may not be able to achieve our objectives and our business could be harmed.

In order to achieve our objectives, we hire software, administrative, operational, sales, and technical support personnel. The process of attracting, training, and successfully integrating qualified personnel can be lengthy and expensive. We may not be able to compete effectively for the personnel we need. Such a failure could have a material adverse effect on our business and operating results.

Our future success depends on our ability to attract and retain senior employees and to attract, motivate, and retain highly qualified professional employees worldwide at competitive prices.

If our plans to continue and reduce the number of employees do not achieve the anticipated results or causes undesirable consequences our operating results may be harmed.

During 2014, we continued our cost saving plan by reducing our headcount, which resulted in a reduction of approximately 23 full-time employees and consultants. The continued reduction in the number of employees may yield unintended consequences, such as attrition beyond our intended reduction in workforce and reduced employee morale, which may cause our employees who were not affected by the reduction in workforce to seek alternate employment. Additional attrition could impede our ability to meet our operational goals, which could have a material adverse effect on our financial performance. In addition, as a result of the reductions in our workforce, we may face an increased risk of employment litigation. Furthermore, employees whose positions will be eliminated in connection with these trends may seek future employment with our competitors. Although all our employees are required to sign a confidentiality agreement with us at the time of hire, we cannot assure you that the confidential nature of our proprietary information will be maintained in the course of such future employment. We cannot assure you that we will not undertake additional reduction activities, that any of our efforts will be successful, or that we will be able to realize the cost savings and other anticipated benefits from our previous or any future reduction plans. In addition, if we continue to reduce our workforce, it may adversely impact our ability to respond rapidly to any new growth or revenue opportunities.

If our technology or solutions do not function efficiently, we may incur additional expenses.

In the course of providing our modernization solutions, the project team conducts testing to detect the existence of failures, errors, and bugs. If our modernization solutions fail to function efficiently or if errors or bugs are detected in our technology, we may incur significant expenditures in an attempt to remedy the problem. The consequences of failures, errors, and bugs could have a material adverse effect on our business, operating results, and financial condition.

If we fail to satisfy our customers' expectations regarding our solutions, or if we fail to timely deliver our solutions to our customers, we may be required to pay penalties, our contracts may be cancelled and we may be the subject of damages claims.

In the event that we fail to satisfy our customers' expectations from the results of the implementation of our solutions, or if we fail to timely deliver our solutions to our customers, these customers may suffer damages. When and if this occurs, we may be required under the customer agreement to pay penalties to our customers or pay their expenses and our customers may have the ability to cancel our contracts. Payments of penalties or a cancellation of a contract could cause us to suffer damages. In addition, we might not be paid for costs that we incurred in performing services prior to the date of cancellation. In addition, from time to time we may be subject to claims as a result of not delivering our products on time or in a satisfactory manner. Such disputes or others may lead to material damages.

We are exposed to significant claims for damage caused to our customers' information systems.

Some of the solutions we provide involve key aspects of our customers' information systems. These systems are frequently critical to our customers' operations. As a result, our customers may have a greater sensitivity to failures in these systems than do customers of other software products generally. If a customer's system fails during or following the provision of modernization solutions or services by us, or if we fail to provide customers with proper support for our modernization solutions, we are exposed to the risk of a claim for substantial damages against us, regardless of our responsibility for the failure. We cannot guarantee that the limitations of liability under our product and service contracts, if any, would be sufficient to protect us against legal claims. We cannot assure you that our insurance coverage will be sufficient to cover one or more large claims, or that the insurer will not disclaim coverage as to any future claim. If we lose one or more large claims against us that exceed available insurance coverage, it may have a material adverse effect on our business, operating results, and financial condition. In addition, the filing of legal claims against us in connection with contract liability may cause us negative publicity and damage to our reputation.

If third parties assert claims of intellectual property infringement against us, we may, regardless of actual merits or success of any claims, suffer substantial costs and diversion of management's attention, which could harm our business.

Substantial litigation over intellectual property rights exists in the global software industry. Software products may be increasingly subject to third-party infringement claims as the functionality of products in different industry segments overlaps. Our success depends, in part, upon our ability not to infringe the intellectual property rights of others. We cannot predict whether third parties will assert claims of infringement against us. In addition, our employees and contractors have access to software licensed by us from third parties. A breach of the nondisclosure undertakings by any of our employees or contractors may lead to a claim of infringement against us.

Any claim, with or without merit, could be expensive and time-consuming to defend, and would probably divert our management's attention and resources. In addition, such a claim, if submitted, may require us to enter into royalty or licensing agreements to obtain the right to use a necessary product or component. Such royalty or licensing agreements, if required, may not be available to us on acceptable terms, if at all.

A successful claim of product infringement against us and our failure or inability to license the infringed or similar technology could have a material adverse effect on our business, financial condition, and results of operations.

We may experience greater than expected competition that could have a negative effect on our business.

We operate in a highly competitive market. Competition in the modernization field is, to a large extent, based upon the functionality of the available solutions. Our competitors may be in a better position to devote significant funds and resources to the development, promotion and sales of their technology and services, thus enabling them to respond more quickly to emerging opportunities and changes in technology or customer requirements. Current and potential competitors have established or may establish cooperative relationships among themselves or with third parties to increase such competitors' ability to successfully market their technology and services. We also expect that competition will increase as a result of consolidation within the industry. As we develop new solutions, we may begin to compete with companies with which we have not previously competed. Our competitors include:

- small vendors who provide specific solutions for a particular area of modernization, such as Anubex, Migrationware, HTWC, Fresche Legacy, Innowake, Software Mining and MSS International;
- large system integrators such as IBM, HP, Accenture, Cognizant and Capgemini, some of whom we also partner with;
- independent software vendors such as Rocket Software, Micro Focus and Metaware; and
- Indian system integrators such as TCS, WIPRO, Infosys and Patni.

We may be unable to differentiate our solutions from those of our competitors, or successfully develop and introduce new solutions that are less costly than, or superior to, those of our competitors. This could have a material adverse effect on our ability to compete.

Many of our existing and potential competitors may have or may acquire more extensive development, marketing, distribution, financial, technological and personnel resources than we do. This increased competition may result in our loss of market share and pricing pressure which may have a material adverse effect on our business, financial condition and results of operations. We cannot assure you that competition with both competitors within our industry and with the in-house information technology departments of certain of our customers or prospective customers will not result in price reductions for our solutions, fewer customer orders, deferred payment terms, reduced revenue or loss of market share, any of which could materially adversely affect our business, financial condition, and results of operations.

We may be unable to adequately protect our proprietary rights, which may limit our ability to compete effectively.

Our success and ability to compete are substantially dependent upon our internally developed technology. Our intellectual property consists of proprietary or confidential information that is not subject to patent or similar protection. Our employees and contractors have direct access to our technology. In general, we have relied on a combination of technical leadership, trade secret, copyright and trademark law, and nondisclosure agreements to protect our proprietary know-how. Unauthorized third parties may attempt to copy or obtain and use the technology protected by those rights. Any infringement of our intellectual property could have a material adverse effect on our business, financial condition, and results of operations. Intellectual property laws only provide limited protection and policing unauthorized use of our products is difficult and costly, particularly in countries where the laws may not protect our proprietary rights as fully as in the United States.

Pursuant to agreements with certain of our customers, we have placed, and in the future may be required to place, in escrow, the source code of certain software. Under the escrow arrangements, the software may, in specified circumstances, be made available to our customers. From time to time, we also provide our software directly to customers. These factors may increase the likelihood of misappropriation or other misuse of our software.

Risks Related to International Operations

Selling and providing our solutions in international markets may cause increased expenses and greater exposure to risks that we may not be able to successfully address.

We have international operations, which require significant management attention and financial resources. Depending on market conditions, we may consider establishing additional marketing and sales operations, hire additional personnel, and recruit additional resellers internationally.

Risks inherent in our worldwide business activities generally include:

- currency exchange fluctuations;
- unexpected changes in regulatory requirements;
- tariffs and other trade barriers;
- costs of localizing products for foreign countries;
- difficulties in operation of management;
- potentially adverse tax consequences, including restrictions on the repatriation of earnings; and
- the burdens of complying with a wide variety of local legislation.

We cannot assure you that these factors will not have a material adverse effect on our future international sales and, consequently, on our business, operating results, and financial condition.

Inflation, devaluation, and fluctuation of various currencies may adversely affect our results of operations, liabilities, and assets.

Since we operate in several countries, we are impacted by inflation, deflation, devaluation and fluctuation of various currencies. We enter into transactions with customers and suppliers in local currencies, while the reporting currency of our consolidated financial statements and the functional currency of our business is the U.S. dollar. Fluctuations in foreign currency exchange rates in countries where we operate can adversely affect the reflection of these activities in our consolidated financial statements. In addition, fluctuations in the value of our non-dollar revenue, costs, and expenses measured in dollars could materially affect our results of operations, and our balance sheet reflects non-dollar denominated assets and liabilities, which can be adversely affected by fluctuations in the currency exchange rates.

Consequently, we are exposed to risks related to changes in currency exchange rates and fluctuations of exchange rates, any of which could result in a material adverse effect on our business, financial condition and results of operations.

Fluctuations in foreign currency values affect the prices of our products and services, which in turn may affect our business and results of operations.

Most of our worldwide sales are currently denominated in U.S. dollars, Israeli shekel, British pounds and euros while our reporting currency is the dollar. A decrease in the value of the dollar relative to these foreign currencies would make our products more expensive and increase our operating costs and, therefore, could adversely affect our results and harm our competitive position in the markets in which we compete.

We are subject to multiple taxing jurisdictions. If we fail to estimate accurately the amount of income tax due in any of these jurisdictions, our net income will be adversely affected.

We operate within multiple taxing jurisdictions and are subject to taxation by these jurisdictions at various tax rates. In addition, we may be subject to audits in these jurisdictions. These audits can involve complex issues, which may require an extended period of time to resolve. We cannot assure you that the final tax outcome of these issues will not be different from management estimates, which are reflected in our income tax provisions. Such differences could have a material effect on our income tax provision and net income in the period in which such outcome occurs.

Risks Related to Our Operations in Israel

Political, economic, and military conditions in Israel could negatively impact our business.

Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its neighboring countries, as well as incidents of terrorist activities and other hostilities. Political, economic and security conditions in Israel could directly affect our operations. We could be adversely affected by hostilities involving Israel, including acts of terrorism or any other hostilities involving or threatening Israel, the interruption or curtailment of trade between Israel and its trading partners, a significant increase in inflation or a significant downturn in the economic or financial condition of Israel. Any on-going or future armed conflicts, terrorist activities, tension along the Israeli borders or political instability in the region could disrupt international trading activities in Israel and may materially and negatively affect our business and could harm our results of operations.

Political relations could limit our ability to sell or buy internationally.

We could be adversely affected by the interruption or reduction of trade between Israel and its trading partners. Some countries, companies and organizations continue to participate in a boycott of Israeli firms and others doing business with Israel or with Israeli companies. Also, over the past several years there have been calls in Europe and elsewhere to reduce trade with Israel. There can be no assurance that restrictive laws, policies or practices directed towards Israel or Israeli businesses will not have an adverse impact on our business.

Risks Related to Our Traded Securities

If we fail to comply with the minimum bid price requirement or any other minimum requirement for continued listing on the NASDAQ Global Market, our shares may be delisted.

Our ordinary shares are currently listed on NASDAQ. The NASDAQ Stock Market LLC has minimum requirements that a company must meet in order to remain listed on NASDAQ. In the past, we received letters from the NASDAQ Global Market notifying us that we were not in compliance with certain listing requirements for continued listing on the NASDAQ Global Market. For example, on September 19, 2011, we received a letter from the NASDAQ Global Market that we failed to comply with the minimum bid price requirement for continued listing on the NASDAQ Global Market as set forth in Marketplace Rule 5450(a)(1). Following the receipt of such letter, on December 28, 2011, we executed a one-for-four reverse split of our ordinary shares, which resulted in an increase of the par value per ordinary share from NIS 0.01 to NIS 0.04, following which we regained compliance with NASDAQ's minimum bid price requirement of $1.00 per share. The closing bid price of our ordinary shares on the NASDAQ Global Market, as of August 10, 2015 was $1.55.

In September 2012, we received an additional letter from the NASDAQ Global Market advising us that according to the Form 6-K filed by us for the period ended June 30, 2012, our shareholder equity fell below the minimum $10 million requirement set forth in Marketplace Rule 5450(b)(1)(A) for continued listing on the NASDAQ Global Market. During the third quarter of 2012, we regained compliance with the shareholder equity minimum requirement. As of June 30, 2015, our shareholders equity was $29.1 million.

In July 2015, we received an additional letter from the NASDAQ Global Market advising us that we were not in compliance with Nasdaq Listing Rule 5450(b)(1)(C) requiring us to maintain a minimum $5,000,000 of Market Value of Publicly Held Shares (“MVPHS”), which consists of shares not held directly or indirectly by an officer, director or any person who is the beneficial owner of more than 10 percent of the total shares outstanding. Pursuant to Nasdaq Listing Rules, we have 180 calendar days, or until January 11, 2016, to regain compliance with Nasdaq Listing Rule 5450(b)(1)(C). To regain compliance, our MVPHS must close at $5,000,000 or more for a minimum of 10 consecutive business days.

We cannot assure you that we will be able to continue to comply with The NASDAQ Global Market minimum requirements. If we fail to comply with those requirements within the required period, and we shall not be able to take sufficient steps to regain compliance, our shares may be delisted from The NASDAQ Global Market, which could reduce the liquidity of, and have an adverse effect on the price of, our ordinary shares.

The market price of our ordinary shares has been and may be extremely volatile and our shareholders may not be able to resell the shares at or above the price they paid, or at all.

During the past years, the closing price of our ordinary shares experienced price and volume fluctuations. The high and low closing prices of our ordinary shares traded on the NASDAQ Global Market during each of the last two years are summarized in the table below:

	Closing Price Per Share (in US $)	
	High	**Low**
2013		
Third Quarter	4.70	4.10
Fourth Quarter	4.80	3.97
2014		
First Quarter	4.60	4.01
Second Quarter	4.48	3.80
Third Quarter	4.29	3.55
Fourth Quarter	3.75	3.14
2015		
First Quarter	3.46	2.20
Second Quarter	3.10	1.78

As of August 10, 2015, the market price of our ordinary shares was $1.55. We cannot assure you that the market price of our ordinary shares will return to previous levels. The market price of our ordinary shares may continue to fluctuate substantially due to a variety of factors, including:

- our continued operating losses and negative cash flows;
- our inability to secure funding;
- any actual or anticipated fluctuations in our or our competitors’ quarterly revenue and operating results;
- shortfalls in our operating results from levels forecast by securities analysts;
- adverse consequences of litigation;
- public announcements concerning us or our competitors;
- the introduction or market acceptance of new products or service offerings by us or by our competitors;
- changes in product pricing policies by us or our competitors;

- changes in security analysts' financial estimates;
- public announcements or the impact of any acquisitions or other strategic transactions;
- changes in accounting principles;
- sales of our shares by existing shareholders; and
- the loss of any of our key personnel.

Future sales of our shares to be registered for resale in the public market could dilute the ownership interest of our existing shareholders and could cause the market price for our ordinary shares to fall.

As of June 30, 2015, we had 17,899,439 ordinary shares outstanding and 1,155,420 ordinary shares reserved for issuance under our employee equity compensation plans, including 559,390 shares reserved for issuance upon the exercise of outstanding employee options, warrants and unvested restricted stock units. As of such date, we also had the following commitments to issue up to 1,042,523 ordinary shares that may be issued to the investors in connection with certain anti-dilution rights granted in connection with the private placement consummated in November 2013. We have committed to register for resale such shares. We have also agreed to provide certain registration rights to certain Ateras stockholders in connection with the Ateras merger.

The exercise of options by employees and office holders, vesting of restricted stock units granted to employees and office holders, exercise of warrants by investors and conversion of loans to equity would dilute the ownership interests of our existing shareholders. Any sales in the public market of our ordinary shares issuable upon exercise of options, warrants or conversion rights, could adversely affect the market price of our ordinary shares. If a large number of our ordinary shares is sold in a short period, the price of our ordinary shares would likely decrease.

Our U.S. shareholders could suffer adverse tax consequences if we are characterized as a passive foreign investment company.

Generally, a foreign corporation is a PFIC for U.S. federal income tax purposes if (i) 75% or more of its gross income in a taxable year is passive income, or (ii) the average percentage of its assets for the taxable year that produce, or are held for the production of, passive income is at least 50%. Passive income includes interest, dividends, royalties, rents and annuities. Passive assets include working capital, including cash raised in public offerings. If we are or become a PFIC, our U.S. shareholders could suffer adverse tax consequences, including being taxed as ordinary income tax rates and being subject to an interest charge on gain from the sale or other disposition of our ordinary shares and on certain "excess distributions" with respect to our ordinary shares. Because we expect to hold a substantial amount of cash or cash equivalents, and because the calculation of the value of our assets may be based in part on the value of our ordinary shares, which may fluctuate and may fluctuate considerably given that market prices of technology companies historically often have been volatile, we may be a PFIC in 2015 or in a subsequent year.

Our four largest shareholders have substantial control over us and could limit your ability to influence the outcome of key transactions, including changes of control.

Based on information filed by our four largest shareholders with the Securities and Exchange Commission as of June 30, 2015, our four largest shareholders, Mindus Holdings, Ltd., Columbia Pacific Opportunity Fund, LP and affiliated entities, Prescott Group Capital Management, LLC and affiliated entities, and Lake Union Capital Management, LLC and affiliated entities beneficially owned approximately 29.1%, 27.4%, 18.6% and 11.1%, respectively, of our ordinary shares. Based on this information, we estimate that these shareholders, in the aggregate, beneficially own approximately 86.2% of our ordinary shares as of the date of this Quarterly Report on Form 10-Q (assuming no additional ordinary shares to prevent anti-dilution are issued related to such ordinary shares). As a result, our four largest shareholders are able to control or influence significantly all matters requiring approval by our shareholders, including the election of directors and the approval of mergers or other significant corporate transactions. These shareholders may have interests that differ from yours, and they may vote in a way with which you disagree and that may be adverse to your interests.

Item 2. Unregistered Sale of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Item 6. Exhibits

Number	Description
2.1[1]	Amended and Restated Agreement and Plan of Merger dated October 14 2014
3.1[2]	English translation of the Memorandum of Association as amended on July 23, 2003 and December 30, 2009.
3.2[3]	Articles of Association as amended on September 5, 2012.
4.2[4]	Form of Ordinary Shares Purchase Warrant dated as of October 12, 2009
4.3[4]	Registration Rights Agreement dated as of October 12, 2009, among the Registrant and the purchasers signatory thereto
10.1[5]	Third Amendment to Loan and Security Agreement, Modification to Loan Documents and Consent, dated as of May 1, 2015 by and between Comerica Bank and the Registrant.
10.2[5]	Fourth Amendment to Loan and Security Agreement, dated as of May 11, 2015 by and between Comerica Bank and the Registrant.
31.1+	Certification of Chief Executive Officer pursuant to Rule 13a-14(a).
31.2+	Certification of Chief Financial Officer pursuant to Rule 13a-14(a).
32.1+	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350.
32.2+	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350.
101.INS+	XBRL Instance Document
101.SCH+	XBRL Taxonomy Extension Schema Document.
101.CAL+	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF+	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB+	XBRL Taxonomy Extension Labels Linkbase Document.
101.PRE+	XBRL Taxonomy Extension Presentation Linkbase Document.

\+ Filed or furnished herewith.

(1) Incorporated by reference to the Current Report on Form 8-K (File No. 333-06208) filed with the Securities and Exchange Commission on October 15, 2014.

(2) Incorporated by reference to the Registrant’s Annual Report on Form 20-F (File No. 333-06208) filed with the Securities and Exchange Commission on March 25, 2010.

(3) Incorporated by reference to the Registrant’s Registration Statement on Form F-1 (File No. 333-19134) filed with the Securities and Exchange Commission on November 27, 2013.

(4) Incorporated by reference to the Registrant’s Report on Form 6-K (File No. 333-06208) filed with the Securities and Exchange Commission on October 13, 2009.

(5) Incorporated by reference to the Registrant’s Report on Form 10-Q (File No. 333-06208) filed with the Securities and Exchange Commission on May 14, 2015.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ModSys International Ltd.
(Registrant)

Date: August 13, 2015	/s/ Matt Bell Matt Bell Chief Executive Officer (Principal Executive Officer)
Date: August 13, 2015	/s/ Rick Rinaldo Rick Rinaldo Chief Financial Officer (Principal Financial and Accounting Officer)

EXHIBIT INDEX

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(5) Incorporated by reference to the Registrant’s Report on Form 10-Q (File No. 333-06208) filed with the Securities and Exchange Commission on May 14, 2015.

Exhibit 31.1

CERTIFICATIONS

I, Matt Bell, certify that:

1 I have reviewed this Quarterly Report on Form 10-Q of ModSys International 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 registrant as of, and for, the periods presented in this report;

4 The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-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 registrant 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 registrant, 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 registrant'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 registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5 The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

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 registrant'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 registrant's internal control over financial reporting.

Date: August 13, 2015

/s/ Matt Bell

Matt Bell
Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, Rick Rinaldo, certify that:

1 I have reviewed this Quarterly Report on Form 10-Q of ModSys International 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 registrant as of, and for, the periods presented in this report;

4 The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-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 registrant 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 registrant, 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 registrant’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 registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5 The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

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 registrant’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 registrant’s internal control over financial reporting.

Date: August 13, 2015

/s/ Rick Rinaldo

Rick Rinaldo
Chief Financial Officer

Exhibit 32.1

**MODSYS INTERNATIONAL LTD.
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 Quarterly Report of ModSys International Ltd. (the “Company”) on Form 10-Q for the quarter ended June 30, 2015, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Matt Bell, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 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 results of operations of the Company.

Date: August 13, 2015

/s/ Matt Bell
Matt Bell
Chief Executive Officer

This certification accompanies the Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of ModSys International Ltd. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.

Exhibit 32.2

**MODSYS INTERNATIONAL LTD.
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 Quarterly Report of ModSys International Ltd. (the "Company") on Form 10-Q for the quarter ended June 30, 2015, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Rick Rinaldo, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 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 results of operations of the Company.

Date: August 13, 2015

/s/ Rick Rinaldo

Rick Rinaldo
Chief Financial Officer

This certification accompanies the Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of ModSys International Ltd. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.