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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 March 31, 2016

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.
(FORMERLY: BLUEPHOENIX SOLUTIONS 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)**
600 University Street, Suite 2409 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 May 10, 2016, there were 18,626,143 shares of the registrant's ordinary shares outstanding.

MODSYS INTERNATIONAL LTD.
(Formerly BluePhoenix Solutions Ltd.)

Quarterly Report on Form 10-Q

For the Quarter Ended March 31, 2016

INDEX

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. (formerly known as BluePhoenix Solutions 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)
(Unaudited)

	March 31, 2016	December 31, 2015
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 690	$ 1,479
Restricted cash	4	4
Trade accounts receivable, net	2,371	2,020
Other current assets	134	120
Total Current Assets	3,199	3,623
Non-Current Assets:		
Property and equipment, net	164	246
Goodwill	25,803	25,803
Intangible Assets and others, net	3,017	3,175
Total Non-Current Assets	28,984	29,224
TOTAL ASSETS	$ 32,183	$ 32,847
LIABILITIES AND EQUITY		
Current Liabilities:		
Short-term bank credit and others	$ 2,457	$ 2,736
Trade accounts payable	1,286	1,004
Deferred revenue	462	925
Other current liabilities	1,150	959
Total Current Liabilities	5,355	5,624
Non-Current Liabilities:		
Accrued severance pay, net	255	232
Loans from others	288	288
Other non-current liabilities	27	30
Total Non-Current Liabilities	570	550
Total Equity	26,258	26,673
TOTAL LIABILITIES AND EQUITY	$ 32,183	$ 32,847

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)
(Unaudited)

	Three months ended March 31,	
	2016	**2015**
Revenue	**$ 2,827**	**$ 2,286**
Cost of revenue	1,662	1,700
Gross profit	1,165	586
Research and development costs	361	386
Selling, general and administrative expenses	1,144	1,320
Amortization of intangible assets	158	254
Total operating expenses	1,663	1,960
Operating loss	**(498)**	**(1,374)**
Financial expense, net	28	47
Loss before taxes on income	(526)	(1,421)
Taxes on income	1	13
Net loss	(527)	(1,434)
Less: Net income (loss) attributable to non-controlling interest	20	(55)
Net loss attributable to ModSys International Ltd. shareholders	**(547)**	**(1,379)**
Loss per share - basic:		
Attributed to the shareholders	(0.03)	(0.08)
Weighted average shares outstanding, basic	18,595	17,863

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

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

	Three months ended March 31,	
	2016	**2015**
Net loss	$ (527)	$ (1,434)
Other comprehensive income	-	-
Total comprehensive loss	(527)	(1,434)
Comprehensive result attributable to non-controlling interest	20	(55)
Comprehensive loss attributable to ModSys International Ltd. shareholders	$ (547)	$ (1,379)

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

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

	Three months ended March 31, 2016	Three months ended March 31, 2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (527)	$ (1,434)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	174	280
Increase (decrease) in accrued severance pay, net	23	(1)
Stock–based compensation	112	147
Change in fair value of derivatives	-	-
Changes in operating assets and liabilities:		
Increase in trade receivables	(351)	(153)
Increase in other current assets	(14)	(52)
Increase in trade payables	282	373
Increase (decrease) in other liabilities and deferred revenues	(275)	255
Loss on disposal of assets	77	-
Net cash used in operating activities	(499)	(585)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(11)	(8)
Net cash used in investing activities	(11)	(8)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Short term bank credit	(279)	950
Net cash provided by (used in) financing activities	(279)	950
NET CASH INCREASE (DECREASE) IN CASH AND CASH EQUVIALETS	(789)	357
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	1,479	449
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 690	$ 806

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. (formerly known as BluePhoenix Solutions 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 business to migrate from their legacy mainframe and distributed IT infrastructures to modern environments and programming languages.

The Company has incurred negative cash flow from operations and net losses in recent years. The Company currently uses its credit line with Comerica to support its negative cash flow position. Management believes that the Company’s current cash position is sufficient to support the ongoing operations for the foreseeable future.

B. Recently Issued Accounting Pronouncements

In March 2016, the FASB issued ASU No. 2016-09, which revises the guidance in ASC 718, Compensation - Stock Compensation, and will change how companies account for certain aspects of share-based payments to employees, including the income tax impact, classification on the statement of cash flows and forfeitures. The guidance is effective for reporting periods (interim and annual) beginning after December 15, 2017, for public companies. Early adoption is permitted. The Company is currently assessing the potential impact of this ASU on its consolidated financial position and results of operations.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which establishes the principles to report transparent and economically neutral information about the assets and liabilities that arise from leases. This guidance results in a more faithful representation of the rights and obligations arising from operating and capital leases by requiring lessees to recognize the lease assets and lease liabilities that arise from leases in the statement of financial position and to disclose qualitative and quantitative information about lease transactions, such as information about variable lease payments and options to renew and terminate leases. This guidance is effective prospectively for interim and annual periods beginning after December 15, 2018. Early adoption is permitted. The new guidance must be adopted using a modified retrospective approach. The Company is currently assessing the impact of this guidance.

In August 2015, the FASB issued ASU No. 2015-15, “Presentation of Financial statements – Going concern (subtopic 205-40), Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern” (“ASU 2015-14”). The new standard provides guidance on management’s responsibility in evaluating whether there is substantial doubt about a company’s ability to continue as a going concern and about related footnote disclosures. For each reporting period, management will be required to evaluate whether there are conditions or events that raise substantial doubt about a company’s ability to continue as a going concern within one year from the date the financial statements are issued. ASU 2015-15 applies prospectively to annual periods ending after December 15, 2016, and to annual periods thereafter. Early application is permitted. The Company is currently evaluating the impact of the adoption of ASU 2015-15 on its consolidated financial statements.

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 months ended March 31, 2016 are not necessarily indicative of the results that may be expected for the year ended December 31, 2016. 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, 2015.

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 – Goodwill:

The following is a summary of the change in the carrying amount of goodwill as of March 31, 2016 and December 31, 2015:

	March 31, 2016 Unaudited	December 31, 2015 Audited
	(in thousands)	
Balance as of January 1		
Goodwill	$ 67,618	$ 67,618
Accumulated impairment losses at the beginning of the period	(41,815)	(41,815)
	25,803	25,803
Changes during the period		
Goodwill related to acquisition	-	-
Balance at end of period		
Goodwill	67,618	67,618
Accumulated impairment losses at the end of the period	(41,815)	(41,815)
	$ 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 information technology 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 determines 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 first quarter of 2016, due to a decrease of the company's share price, the company assessed whether goodwill impairment is required. As of March 31, 2016, 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 3 – 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.

Financial assets and liabilities measured at fair value as of March 31, 2016 and December 31, 2015, are summarized below:

	Fair value measurements using input type March 31, 2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Cash and Cash Equivalents	686	-	-	686
Restricted cash	4	-	-	4
	$ 690	$ -	$ -	$ 690

	Fair value measurements using input type December 31, 2015			
	Level 1	**Level 2**	**Level 3**	**Total**
Cash and Cash Equivalents	1,479	-	-	1,479
Restricted cash	4	-	-	4
Intangible asset – Technology	-	-	3,175	3,175
	$ 1,483	$ -	$ 3,175	$ 4,658

Note 4 – 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 March 31, 2016, the contingent liability that was not recognized amounted to $183,000.

Ministry of Production in Italy. In July 2007, the Company's subsidiary, I-Ter, received an amount of $585,000 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 March 31, 2016, the remaining loan balance was $102,000.

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 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 5 – Subsequent Events:

On May 13, 2016, the Company received a commitment letter from Comerica Bank regarding its credit facility, according to which the covenant of trailing six month EBITDA was updated and an additional condition to maintain minimum cash at bank of $ 250 thousand was added. The remaining substantive provisions of the credit facility were not materially changed by the commitment letter.

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, 2015, as filed with the Securities and Exchange Commission (the "SEC") on March 30, 2016.

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.

On December 1, 2014, we completed a merger with Sophisticated Business Systems, Inc., a Texas corporation doing business as "Ateras" ("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 surviving entity was then renamed MS Modernization Services, Inc.

Upon the closing of the Ateras Merger, we 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.

In December 2015, we issued 500,000 preferred shares and warrants to purchase 250,000 ordinary shares in a private placement in exchange for $1 million in cash. We also issued an additional 625,000 ordinary shares in the same transaction as the result of an anti-dilutive clause under a prior investment. In December 2015, we also issued warrants to purchase 454,191 ordinary shares in exchange for loan modifications or loan guarantees.

As of March 31, 2016, we had cash and cash equivalents of $690,000 and negative working capital of $2.2 million. We believe our current cash and cash equivalents, together with the available borrowing under our credit facility is sufficient to fund our operations for the foreseeable future.

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 be capable of tracking and predicting changes in technologies. Anticipating the needs of the IT 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 IT 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.

To keep up with the demand for our solution, 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 March 16, 2016 , we entered into the Fifth Amendment to the existing loan agreement with Comerica Bank dated October 2, 2013 as previously amended, to: (i) waive the liquidity covenant violations of September and December 2015; (ii) extend the maturity date of the non-formula revolving line and the revolving line to June 30, 2017; (iii) amend the definition of eligible accounts receivable; (iv) waive the equity event of $2.5 million on or before December 31, 2015; (v) add a new six month rolling EBITDA covenant and (vi) limit the amount of cash transfer to ModSys International Ltd. The remaining substantive provisions of the credit facility were not materially changed by this amendment.

On May 13, 2016, the Company received a commitment letter from Comerica Bank regarding its credit facility, according to which the covenant of trailing six month EBITDA was updated and an additional condition to maintain minimum cash at bank of $ 250 thousand was added. The remaining substantive provisions of the credit facility were not materially changed by the commitment letter.

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 30, 2016.

Recently Issued Accounting Pronouncements

In March 2016, the FASB issued ASU No. 2016-09, which revises the guidance in ASC 718, Compensation - Stock Compensation, and will change how companies account for certain aspects of share-based payments to employees, including the income tax impact, classification on the statement of cash flows and forfeitures. The guidance is effective for reporting periods (interim and annual) beginning after December 15, 2017, for public companies. Early adoption is permitted. We are currently assessing the potential impact of this ASU on our consolidated financial position and results of operations.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which establishes the principles to report transparent and economically neutral information about the assets and liabilities that arise from leases. This guidance results in a more faithful representation of the rights and obligations arising from operating and capital leases by requiring lessees to recognize the lease assets and lease liabilities that arise from leases in the statement of financial position and to disclose qualitative and quantitative information about lease transactions, such as information about variable lease payments and options to renew and terminate leases. This guidance is effective prospectively for interim and annual periods beginning after December 15, 2018. Early adoption is permitted. The new guidance must be adopted using a modified retrospective approach. We are currently assessing the impact of this guidance.

In August 2015, the FASB issued ASU No. 2015-15, “Presentation of Financial statements – Going concern (subtopic 205-40), Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern” (“ASU 2015-14”). The new standard provides guidance on management’s responsibility in evaluating whether there is substantial doubt about a company’s ability to continue as a going concern and about related footnote disclosures. For each reporting period, management will be required to evaluate whether there are conditions or events that raise substantial doubt about a company’s ability to continue as a going concern within one year from the date the financial statements are issued. ASU 2015-15 applies prospectively to annual periods ending after December 15, 2016, and to annual periods thereafter. Early application is permitted. We are currently evaluating the impact of the adoption of ASU 2015-15 on our consolidated financial statements.

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.

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 March 31,			
	2016		2015	
	(in Thousands)	%	(in Thousands)	%
Revenue	$ 2,827	100.0	2,286	100.0
Cost of revenue	1,662	58.8	1,700	74.4
Gross profit	1,165	41.2	586	25.6
Research and development costs	361	12.8	386	16.9
Selling, general, and administrative expenses	1,144	40.5	1,320	57.7
Amortization of intangible assets	158	5.6	254	11.1
Operating loss	(498)	(17.6)	(1,374)	(60.1)
Financial expense, net	28	1.0	47	2.1
Loss before taxes on income	(526)	(18.7)	(1,421)	(62.2)
Taxes on income	1	0.0	13	0.6
Net loss	(527)	(18.6)	(1,434)	(62.7)
Net results attributable to non-controlling interest	20	0.7	(55)	(2.4)
Net results attributable to ModSys International Ltd. shareholders	(547)	(19.4)	(1,379)	(60.3)

Three Months Ended March 31, 2016 and 2015

Revenue. Revenue was $2.8 million for the three months ended March 31, 2016, a 23.7% increase when compared to $2.3 million for the three months ended March 31, 2015.

We currently concentrate our resources on providing legacy modernization solutions and services. Our revenue is generated from fixed-price projects, consulting fees, licensing fees, and long-term maintenance contracts.

Revenue generated from fixed price projects was $2.1 million for the three months ended March 31, 2016 and $1.6 million for the three months ended March 31, 2015. The increase is due to the completion of projects for major customers in the first quarter of 2016, which resulted in the recognition of revenue from such projects.

Revenue generated from our consulting services was $528,000 for the three months ended March 31, 2016, compared to $348,000 for the three months ended March 31, 2015. This increase is due to an increase in the average value of contracts for consulting projects.

Revenue generated from our licensing services was $61,000 for the three months ended March 31, 2016, compared to $218,000 for the three months ended March 31, 2015. The decrease in revenue generated from our license fees is attributed to a decrease in customers with license agreements.

Revenue generated from our long-term maintenance contract services was $156,000 for the three months ended March 31, 2016 compared to $124,000 for the three months ended March 31, 2015. The increase in revenue from long-term maintenance contracts is attributable to an increase in the average value of the contracts.

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 both the three months ended March 31, 2016 and March 31, 2015. Cost of revenue as a percentage of revenue was 58.8% for the three months ended March 31, 2016 compared to 74.4% for the three months ended March 31, 2015. The decrease in cost of revenue as a percentage of revenue for the three months ended March 31, 2016 is primarily attributable to the increase of fixed price revenue resulting from the completion of projects for major customers which had lower cost of revenues.

Gross profit. Gross profit was $1.2 million for the three months ended March 31, 2016, an increase when compared to $0.6 million for the three months ended March 31, 2015. Gross profit as a percentage of revenue was 41.2% for the three months ended March 31, 2016 compared to 25.6% for the three months ended March 31, 2015. The increase in gross profit percentage is due to the increased revenue from fixed price projects and consulting services and the completion of projects for major customers which had lower cost of revenues.

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 $361,000 for the three months ended March 31, 2016, a 7% decrease when compared to $386,000 for the three months ended March 31, 2015. The decrease was the result of the additional research and development employee headcount related to the Ateras Merger in 2015, which has since been reduced by reduced headcount and research and development hours. As a percentage of revenue, research and development costs were 12.8% for the three months ended March 31, 2016 and 16.9% for the three months ended March 31, 2015.

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, depreciation and amortization. Selling, general, and administrative expenses were $1.1 million for the three months ended March 31, 2016, a 15.4% decrease when compared to $1.3 million for the three months ended March 31, 2015. The decrease was the result of additional salaries and professional fees that were incurred during the 2015 period related to the Ateras Merger. As a percentage of revenue, selling, general and administrative expenses were 40.5% for the three months ended March 31, 2016 compared to 57.7% for the three months ended March 31, 2015.

Amortization of intangible assets. We had amortization expense of $158,000 for the three months ended March 31, 2016, compared to $254,000 for the three months ended March 31, 2015. The decrease was the result of the amortization cost of intangible assets related to the Ateras Merger, which was written down $1.5 million at the end of 2015.

Financial 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. Our financial expense, net was $28,000 for the three months ended March 31, 2016, compared to $47,000 for the three months ended March 31, 2015.

Taxes on income. We had income tax expense of $1,000 for the three months ended March 31, 2016, compared to $13,000 for the three months ended March 31, 2015. The tax expense for the three months ended March 31, 2016 and 2015 is current tax expense.

***Net result attributable to non-controlling interest*.** Net result attributable to non-controlling interest was a $20,000 income for the three months ended March 31, 2016, when compared to a $55,000 loss for the three months ended March 31, 2015, and represented the non-controlling share in the net results 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 result of our subsidiary, MS Modernization Services, Inc.

Liquidity and Capital Resources

Capital Markets

Since 1997, we have consummated various public equity and debt offerings as well as private equity and debt offerings. In December of 2015, we completed a private placement with some of our major shareholders where we issued $1 million of equity, consisting of 500,000 shares of preferred stock and warrants to purchase 250,000 ordinary shares. The preferred shares carry an 8% per annum cumulative dividend payable in kind by additional preferred shares, calculated based on amount of $2.00 per share, subject to adjustment for stock splits, combinations, recapitalizations and the like. In the event dividends are paid on any ordinary share, we shall pay an additional dividend on all outstanding preferred shares in a per share amount equal (on an as if converted to ordinary share basis) to the amount paid or set aside for each ordinary share. The preferred shares are convertible into our ordinary shares on a one-to-one basis at the option of the holder. Should the volume weighted average price of the ordinary shares be $5.00 or more for ten consecutive trading days at any time two years from the date of issuance, the preferred shares will be automatically converted into ordinary shares at the adjusted $2.00 share price. Upon any liquidation, dissolution, or winding up of our company, whether voluntary or involuntary, the preferred shares are entitled to a preferential payout of $3.00 per share.

On December 29, 2015, our shareholders approved the issuance of 45,082 warrants for our ordinary shares with an exercise price of $0.01 per share for an amendment to a promissory note. Fifty percent (50%) of these warrants may be exercised on issuance while the remaining 50% vested on February 24, 2016 as the promissory note was not paid in full on or before that time. At the same shareholder meeting, the shareholders approved the issuance of 409,837 warrants for our ordinary shares with an exercise price of $0.01 per share for the issuance of guarantees of our term note with Comerica Bank. Fifty percent (50%) of these warrants may be exercised on issuance while the remaining 50% vested on February 24, 2016 as the Comerica Bank note was not reduced to below $1,000,000 on or before that date.

While we have successfully raised financing in the past in both the public and private capital markets, there can be no assurances that we will continue to access to these markets in the future. We have reported multiple year-over-year net losses that have resulted in negative cash flows. We cannot be certain that any additional financing will be available on reasonable terms or at all. Raising additional funds in the future by issuing securities could adversely affect our shareholders and negatively impact our operating results. If we raise additional funds through the issuance of our ordinary shares or securities convertible into or exchangeable into our ordinary shares, the percentage ownership of our then-existing shareholders will decrease, and they may experience additional dilution. In addition, any convertible or exchangeable securities we might issue to raise capital may have rights, preferences and privileges more favorable to the holders than those of our existing ordinary and preferred shares. We believe that we have sufficient capital resources to support operations for the foreseeable future.

Cash and Cash Equivalents

As of March 31, 2016, we had cash and cash equivalents of $690,000 and negative working capital of $2.2 million. As of December 31, 2015, we had cash and cash equivalents of $1.5 million and negative working capital of $2.0 million. The working capital increased primarily due to the increased trade receivables and payments on the line of credit.

Management believes that our current cash and cash equivalents, together with the available borrowing under our credit facility, is sufficient to fund our operations for the foreseeable future. We are continuing to reduce operating expenses and we continue to seek additional areas for cost reductions.

Credit Facility

On March 16, 2016 , we entered into the Fifth Amendment to the existing loan agreement with Comerica Bank dated October 2, 2013 as previously amended, to: (i) waive the liquidity covenant violations of September and December 2015; (ii) extend the maturity date of the non-formula revolving line and the revolving line to June 30, 2017; (iii) amend the definition of eligible accounts receivable; (iv) waive the equity event of $2.5 million on or before December 31, 2015; (v) add a new six month rolling EBITDA covenant and (vi) limit the amount of cash transfer to ModSys International Ltd. The remaining substantive provisions of the credit facility were not materially changed by this amendment.

On May 13, 2016, the Company received a commitment letter from Comerica Bank regarding its credit facility, according to which the covenant of trailing six month EBITDA was updated and an additional condition to maintain minimum cash at bank of $ 250 thousand was added. The remaining substantive provisions of the credit facility were not materially changed by the commitment letter.

As of March 31, 2016, we had borrowed $2.0 million against our non-formula revolving line and $433,000 against the revolving line with a total of $1.5 million available.

Cash Used in Operating Activities

Net cash used in operating activities during the three months ended March 31, 2016, was $0.5 million compared to $0.6 million during the three months ended March 31, 2015. The change is primarily attributable to an increase in trade receivables of $0.4 million and a decrease in our other current liabilities and deferred revenues of $0.3 million.

Cash Used in Investment Activities

Net cash used in investment activities during the three months ended March 31, 2016 was $11,000 compared to $8,000 net cash provided by investment activities during the three months ended March 31, 2015. Net cash used in investment activities in the three months ended March 31, 2016 includes purchases of computers and computer software.

Cash Provided by (Used) in Financing Activities

Net cash used in financing activities during the three months ended March 31, 2016 was $279,000 compared to net cash provided of $950,000 during the three months ended March 31, 2015.

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 March 31, 2016, the contingent liability amounted to $183,000.

Ministry of Production in Italy

During 2007, our subsidiary, 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 March 31, 2016, the remaining loan balance was approximately $102,000. 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 2019. Operating lease payments for the three months ended March 31, 2016 were approximately $82,000.

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 three months ended March 31, 2016.

Effective Corporate Tax Rates

Under Israeli law, Israeli corporations are generally subject to 26.5% corporate tax rate from January 1, 2014 and 25% corporate tax rate starting on January 1, 2016. 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.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As of March 31, 2016, we have an outstanding $102,000 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 March 31, 2016 (at fair value):

	Euro	British Pound	CAN	USD	Other	Total
Accounts Receivables	*%	25%	*%	72%	3%	100%
Accounts Payables	7%	27%	*%	52%	14%	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 March 31, 2016, 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 March 31, 2016 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 a net loss of $0.5 million in the three months ended March 31, 2016, and net losses of $1.4 million in the three months ended March 31, 2015. Our negative cash flows from operations were $499,000 for the three months ended March 31, 2016, compared to $585,000 for the three months ended March 31, 2015. As of March 31, 2016, we had cash and cash equivalents of $690,000 compared to cash and cash equivalents of $1.5 million as of December 31, 2015. These results have had a negative impact on our financial condition. 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, is sufficient to fund our operations for the foreseeable future.

We have a credit facility with one bank which expires June 30, 2017. 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, 2017. 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. We cannot assure you that we will be able to extend the terms of this credit facility or that alternative financing would be available, either from investors or financial institutions. Failure to raise the additional 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.

Our credit facility requires us to comply with covenants regarding achievement of an EBITDA target and our maintenance of certain financial ratios. In addition, these covenants 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. Our failure to comply with these covenants and the other terms of our credit facility 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 cannot assure you that we will be able to maintain our outstanding credit facility or negotiate new credit facilities on favorable terms to us.

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. Our ability to obtain financing, when required, depends in part on the future performance of our business and the condition of the capital markets. 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. The issuance of equity securities to investors would dilute your holdings in our company.

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 IT 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.

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 IT 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 had negative cash flows from operations in 2016 and 2015, which may continue if we are not successful at increasing our revenues or reducing our expense level.

We had negative operating cash flows of $0.5 million for the three months ended March 31, 2016 and $0.6 million for the three months ended March 31, 2015. We continue to assess our infrastructure costs and reduce workforce and labor costs as they constitute a substantial portion of our costs of revenues, selling and administrative expenses, and research and development expenses.

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 three months ended March 31, 2016, Lockheed Martin accounted for 34.5% and Computer Science Corporation accounted for 14.6% 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 may 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 IT 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 revenues 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 may 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 is 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 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 March 31, 2016 and December 31, 2015, include, among other things, goodwill valued at approximately $25.8 million. 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.

On December 1, 2014, we completed a merger with Sophisticated Business Systems, Inc., a Texas corporation doing business as “Ateras.” The fair value purchase price allocation from this merger resulted us recording approximately $5.2 million in technology intangible assets. We subjected the value of these intangible assets to an annual impairment test as of December 31, 2015. The impairment test indicated that the fair value of these intangible assets at this time was approximately $3.2 million, causing us to record non-cash impairment to amortization expense of approximately $1.5 million.

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 was 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.

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, Dell, Accenture, Cognizant, TCS, WIPRO, Infosys, Patni and Capgemini, some of whom we also partner with; and

- independent software vendors such as Rocket Software, Micro Focus and Metaware;

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

Marketing 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.

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 Capital Market, our shares may be delisted.

On July 13, 2015 we received a letter from NASDAQ notifying us that we were no longer in compliance with NASDAQ Marketplace Rule 5450 (b)(1)(C) for the NASDAQ Global Market, which requires a company to maintain a minimum of $5,000,000 of its public shares outstanding to be held by non-affiliated shareholders. We were given 180 days to comply with the Marketplace Rule. Because approximately 90% of our outstanding shares are held by affiliated shareholders, we could not comply with this Marketplace Rule. On January 25, 2016, our ordinary shares were transferred to the NASDAQ Capital Market, which does not have the requirement of Marketplace Rule 5450(b)(1)(C).

We cannot assure you that we will be able to continue to comply with The NASDAQ Capital Market minimum requirements. If we fail to comply with those requirements, and we shall not be able to take sufficient steps to regain compliance, our shares may be delisted from The NASDAQ Capital 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 or The NASDAQ Capital Market during each of the last two years are summarized in the table below:

	Closing Price Per Share (in US $)	
	High	**Low**
2014		
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
Third Quarter	1.91	1.15
Fourth Quarter	2.35	1.39
2016		
First Quarter	2.30	2.00

As of May 10, 2016, the closing price of our ordinary shares was $1.60. 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;
- 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 March 31, 2016, we had 18,603,892 ordinary shares outstanding and 697,666 ordinary shares reserved for issuance under our employee equity compensation plans, including shares reserved for issuance upon the exercise of outstanding employee options, warrants and unvested restricted stock units. As of March 31, 2016, we also have 500,000 preferred shares outstanding, which are convertible into ordinary shares, and outstanding warrants to purchase 704,919 ordinary shares.

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, conversion of preferred shares 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 passive foreign investment company ("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 at the 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.

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 March 31, 2016, our four largest shareholders, Columbia Pacific Opportunity Fund, LP and affiliated entities, Mindus Holdings, LTD, Prescott Group Capital Management, LLC and affiliated entities, and Lake Union Capital Management, LLC and affiliated entities beneficially owned approximately 29,4%, 28.6%, 22.9% and 10.6% respectively, of our ordinary shares. Based on this information, we estimate that these shareholders, in the aggregate, beneficially own approximately 92% 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 averse to your interests.

Item 2. Unregistered Sales 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

On March 28, 2016, the Company announced the appointment of Richard Chance to the position of Chief Financial Officer, effective April 16, 2016. From February 15, 2016 to April 16, 2016, Mr. Chance served as the company’s Director of Finance. Mr. Chance is a Certified Public Accountant and has over 11 years in the application modernization space. From 2003 to 2014, Mr. Chance served in a variety of roles at ATERAS, one of the companies which merged with Blue Phoenix to form Modern Systems in December 2014, most recently as Chief Financial Officer. Prior to ATERAS, Mr. Chance has worked in chief financial and executive management roles with independent companies his entire career, starting in public accounting with KPMG. There are no arrangements or understandings between Mr. Chance and any other persons pursuant to which he was selected as Chief Financial Officer. There are also no family relationships between Mr. Chance and any director or executive officer of the Company and he has no direct or indirect material interest in any transaction required to be disclosed pursuant to Item 404(a) of Regulation S-K.

Item 6. Exhibits

Number	Description
3.1(1)	English translation of the Memorandum of Association as amended on July 23, 2003 and December 30, 2009
3.2(2)	Amended Articles of Association
4.1(3)	Form of Ordinary Shares Purchase Warrant dated as of October 12, 2009
4.2(2)	Form of Ordinary Shares Purchase Warrant dated December 29, 2015
4.3(4)	Form of Ordinary Shares Purchase Warrant dated December 29, 2015
4.4(3)	Registration Rights Agreement dated as of October 12, 2009, among the Registrant and the purchasers signatory thereto
4.5(5)	Registration Rights Agreement, dated as of December 1, 2014
4.6(5)	Preemptive Rights Agreement, dated as of December 1, 2014
10.1(6)	Fifth Amendment to Loan and Security Agreement by and between Comerica Bank and the Registrant, dated March 17, 2016
10.2+(7)	Employment Agreement by and between the Registrant and Richard Chance, dated March 28, 2016
10.3+(4)	Transition Agreement by and between the Registrant and Rick Rinaldo, dated January 15, 2016
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 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
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

\+ Indicates a management contract or compensatory plan.

* Document has been furnished, is not deemed filed and is not to be incorporated by reference into any of the Company's filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, irrespective of any general incorporation language contained in any such filing.

(1) Incorporated by reference to the Registrant's Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 25, 2010.
(2) Incorporated by reference to the Registrant's Report on Form 8-K filed with the Securities and Exchange Commission on December 2, 2015.
(3) Incorporated by reference to the Registrant's Report on Form 6-K filed with the Securities and Exchange Commission on October 13, 2009.
(4) Incorporated by reference to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on January 22, 2016.
(5) Incorporated by reference to the Registrant's Report on Form 8-K filed with the Securities and Exchange Commission on December 1, 2014.
(6) Incorporated by reference to the Registrant's Report on Form 8-K filed with the Securities and Exchange Commission on March 22, 2016.
(7) Incorporated by reference to the Registrant's Report on Form 8-K filed with the Securities and Exchange Commission on March 31, 2016.

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: May 16, 2016	/s/ Matt Bell Matt Bell Chief Executive Officer (Principal Executive Officer)
Date: May 16, 2016	/s/ Richard Chance Richard Chance Chief Financial Officer (Principal Financial and Accounting Officer)

EXHIBIT INDEX

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101.PRE+	XBRL Taxonomy Extension Presentation Linkbase Document

+ Indicates a management contract or compensatory plan.

* Document has been furnished, is not deemed filed and is not to be incorporated by reference into any of the Company’s filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, irrespective of any general incorporation language contained in any such filing.

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(6) Incorporated by reference to the Registrant’s Report on Form 8-K filed with the Securities and Exchange Commission on March 22, 2016.
(7) Incorporated by reference to the Registrant’s Report on Form 8-K filed with the Securities and Exchange Commission on March 31, 2016.

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: May 16, 2016

/s/ Matt Bell

Matt Bell
Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, Richard Chance, 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: May 16, 2016

/s/ Richard Chance

Richard Chance
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 March 31, 2016, 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.

/s/ Matt Bell
Matt Bell
Chief Executive Officer

May 16, 2016

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 March 31, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard Chance, 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.

/s/ Richard Chance

Richard Chance
Chief Financial Officer

May 16, 2016

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.