

MAGIC SOFTWARE ENTERPRISES LTD

Form 20-F

April 27, 2016

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 20-F

OR

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

For the fiscal year ended December 31, 2015

OR

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

For the transition period from _____ to _____

OR

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

Date of event requiring this shell company report

Commission file number: 0-19415

MAGIC SOFTWARE ENTERPRISES LTD.

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

Israel

(Jurisdiction of incorporation or organization)

5 Haplada Street, Or Yehuda 6021805, Israel

(Address of principal executive offices)

Amit Birk; +972 (3) 538 9322; abirk@magicsoftware.com

5 Haplada Street, Or Yehuda 6021805, Israel

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

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

Title of each class	Name of each exchange on which registered
Ordinary Shares, NIS 0.1 Par Value	NASDAQ Global Select Market

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

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

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

Ordinary Shares, par value NIS 0.1 per share	44,335,220 (as of December 31, 2015)
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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☐ No ☒

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

Yes ☐ No ☒

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

Yes ☒ No ☐

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

Yes ☒ No ☐

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

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐

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

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

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

Item 17 ☐ Item 18 ☐

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

Yes ☐ No ☒

This annual report on Form 20-F is incorporated by reference into the registrant's Registration Statements on Form S-8, File Nos. 333-13270, 333-113552, 333-132221 and 333-149553.

INTRODUCTION

We are a global provider of proprietary application development and business process integration platforms, selected vertical software solutions and related professional services, as well as a vendor of IT outsourcing software services. Our software technology is used by customers to develop, deploy and integrate on-premise, mobile and cloud-based business applications quickly and cost effectively. In addition, our technology enables enterprises to accelerate the process of delivering business solutions that meet current and future needs and allow customers to dramatically improve their business performance and return on investment. With respect to IT outsourcing services, we offer a vast portfolio of professional services in the areas of infrastructure design and delivery, application development, technology consulting planning and implementation services, support services and supplemental outsourcing services. In addition, we offer a variety of proprietary comprehensive packaged software solutions through certain of our subsidiaries for (i) revenue management and monetization solutions in mobile, wireline, broadband and MVNO/E, (ii) management systems of both hubs and traditional air cargo ground handling operations from physical handling and cargo documentation through customs, seamless EDI communications, dangerous goods, special handling, track and trace, security to billing (iii) human capital management, or HCM, solutions, to facilitate the collection, analysis and interpretation of quality data about people, their jobs and their performance, to enhance HCM decision making and (iv) comprehensive systems for managing broadcast channels in the area of TV broadcast management through cloud-based on demand service or on premise solutions. Based on our technological capabilities, our software solutions enable customers to respond to rapidly-evolving market needs and regulatory changes, while improving the efficiency of their core operations. We have approximately 1,200 employees and operate through a network of over 3,000 independent software vendors, who we refer to as Magic Software Providers, or MSPs, and hundreds of system integrators, distributors, resellers, and consulting and OEM partners. Thousands of enterprises in approximately 50 countries use our products and services.

Our software platforms consist of:

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

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

of our customers and the markets in which they operate.

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

Our vertical packaged software solutions include:

Leap™ – a proprietary comprehensive core software solution for Business Support Systems, or BSS, including convergent charging, billing, customer management, policy control and payment software solutions for the telecommunications, content, Machine to Machine/Internet of Things or M2M/IoT, payment and other industries.

Hermes Solution – a proprietary comprehensive core software solution for both hubs and traditional air cargo ground handling operations supporting operations from physical handling and cargo documentation through customs, seamless EDI communications, dangerous goods, special handling, track and trace and security to billing.

HR Pulse – A customizable single-tenant SaaS tool that helps organizations to monitor employee performance, progress and potential through a menu of templates that can create new HCM solutions, complement existing processes, and/or integrate with legacy HR systems already in use by organizations.

MBS Solution – a proprietary comprehensive core system for TV broadcast management for use in managing broadcast channels.

In addition, we provide a broad range of advanced IT services in the areas of infrastructure design and delivery, end-to-end application development, technology planning and implementation services, as well as supplemental outsourcing and outsourcing services to a wide variety of companies, including Fortune 1000 companies. The technical personnel we provide generally supplement in-house capabilities of our customers. We have extensive and proven experience with virtually all types of telecom infrastructure technologies in wireless and wire-line as well as in the areas of infrastructure design and delivery, application development, project management, technology planning and implementation services.

We have substantial experience in end-to-end development of high-end software solutions, beginning with collection and analysis of system requirements, continuing with architecture specification and setup, to software implementation, component integration and testing. From concept to implementation, from application of the ideas of startups to full responsibility for the development of systems and management of projects for enterprises, we adhere to timelines and budget and work in full transparency with our customers every step of the way.

Our consolidated financial statements appearing in this annual report are prepared in U.S. dollars and in accordance with United States generally accepted accounting principles, or U.S. GAAP. All references in this annual report to “dollars” or “\$” are to U.S. dollars and all references in this annual report to “NIS” are to New Israeli Shekels.

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

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

Definitions

In this annual report, unless the context otherwise requires:

references to “Magic,” the “Company,” the “Registrant,” “our company,” “us,” “we” and “our” refer to Magic Software Enterprises Ltd. and its consolidated subsidiaries, unless otherwise indicated

references to “our shares,” “Ordinary Shares” and similar expressions refer to Magic’s Ordinary Shares, par value NIS 0.1 per share;

- references to “dollars”, “U.S. dollars”, “U.S. \$” and “\$” are to United States Dollars;
- references to “Euro” or “€” are to the Euro, the official currency of the Eurozone in the European Union;
- references to “shekels” and “NIS” are to New Israeli Shekels, the Israeli currency;
- references to the “Articles” are to our Amended Articles of Association, as currently in effect;
- references to the “Securities Act” are to the Securities Act of 1933, as amended;
- references to the “Exchange Act” are to the Securities Exchange Act of 1934, as amended;
- references to “NASDAQ” are to the NASDAQ Stock Market;
- references to the “TASE” are to the Tel Aviv Stock Exchange; and
- references to the “SEC” are to the United States Securities and Exchange Commission.

Cautionary Note Regarding Forward-Looking Statements

Certain matters discussed in this annual report are forward-looking statements within the meaning of Section 27A of the Securities Act, Section 21E of the Exchange Act and the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995, that are based on our beliefs and assumptions as well as information currently available to us. Such forward-looking statements may be identified by the use of the words “anticipate,” “believe,” “estimate,” “expect,” “may,” “will,” “plan” and similar expressions. Such statements reflect our current views with respect to future events and are subject to certain risks and uncertainties. While we believe such forward-looking statements are based on reasonable assumptions, should one or more of the underlying assumptions prove incorrect, or these risks or uncertainties materialize, our actual results may differ materially from those expressed or implied by the forward-looking statements. Please read the risks discussed in Item 3 – “Key Information” under the caption “Risk Factors” and cautionary statements appearing elsewhere in this annual report in order to review conditions that we believe could cause actual results to differ materially from those contemplated by the forward-looking statements. We undertake no obligation to release any update or revision to any forward-looking statements to reflect new information, future events or circumstances, or otherwise after the date hereof. Whether as a result of new information, future events or otherwise. In light of these risks, uncertainties, and assumptions, the forward-looking events discussed in this annual report might not occur.

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

The following table presents selected consolidated financial data as of the dates and for each of the periods indicated. The selected consolidated financial data set forth below should be read in conjunction with and are qualified entirely by reference to Item 5. "Operating and Financial Review and Prospects" and our consolidated financial statements and notes thereto included elsewhere in this annual report.

We have derived the following consolidated income statement data for the years ended December 31, 2013, 2014 and 2015 and the consolidated balance sheet data as of December 31, 2014 and 2015 from our audited consolidated financial statements and notes included elsewhere in this annual report. We have derived the consolidated income statement data for the year ended December 31, 2011 and 2012 and the consolidated balance sheet data as of December 31, 2011, 2012 and 2013 from our audited consolidated financial statements that are not included in this annual report.

Income Statement Data:

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Year ended December 31,
2011 2012 2013 2014 2015
(U.S. dollars in thousands, except per share data)

Revenues:					
Software	\$23,110	\$23,684	\$23,254	\$25,351	\$21,598
Maintenance and technical support	16,751	22,384	22,685	22,780	22,908
Consulting services	73,467	80,312	99,019	116,173	131,524
Total revenues	113,328	126,380	144,958	164,304	176,030
Cost of revenues:					
Software	5,771	7,439	6,648	7,646	7,836
Maintenance and technical support	2,250	3,238	2,949	2,921	2,466
Consulting services	59,237	62,716	76,296	89,160	102,919
Total cost of revenues	67,258	73,393	85,893	99,727	113,221
Gross profit	46,070	52,987	59,065	64,577	62,809
Operating costs and expenses:					
Research and development, net	2,047	2,947	3,706	4,750	4,888
Selling and marketing	20,147	22,990	23,066	24,580	23,062
General and administrative	9,159	10,642	13,166	14,521	13,425
Other income, net	-	-	-	-	-
Operating income	14,717	16,408	19,127	20,726	21,434
Financial income (expense), net	221	10	(684)	(1,786)	(685)
Other income (expense), net	125	136	(12)	(67)	8
Income before taxes on income	15,063	16,554	18,431	18,873	20,757
Tax benefit (taxes on income)	203	(94)	(1,575)	(2,307)	(3,681)
Income after taxes on income	15,266	16,460	16,856	16,566	17,076
Net income	\$15,266	\$16,460	\$16,856	\$16,566	