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UNITED STATES  
**SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, D.C. 20549

**FORM 20-F**

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

OR

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

For the fiscal year ended December 31, 2017

OR

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

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 \_\_\_\_\_

For the transition period from \_\_\_\_ to \_\_\_\_

Commission File No. 000-51694

**Perion Network Ltd.**

(Exact Name of Registrant as specified in its charter)

N/A

(Translation of Registrant's name into English)

**Israel**

(Jurisdiction of incorporation or organization)

**26 HaRokmim Street**

**Holon, Israel 5885849**

(Address of principal executive offices)

**Maoz Sigron, Chief Financial Officer**

**Tel: +972-73-3981582; Fax: +972-3-644-5502**

**26 HaRokmim Street**

**Holon, Israel 5885849**

(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  
Ordinary shares, par value NIS 0.01 per share

Name of Each Exchange on which Registered  
NASDAQ Global Select Market

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None  
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None  
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the Annual Report.

As of December 31, 2017, the Registrant had outstanding 77,550,069 ordinary shares, par value NIS 0.01 per share (excluding dormant shares).

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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, a non-accelerated filer, or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act

Large accelerated filer

Accelerated filer

Non-accelerated filer

Emerging growth company

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

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

U.S. GAAP

International Financial Reporting Standards as issued  
by  
the International Accounting Standards Board

Other

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

Item 17  Item 18

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

Yes  No

## PRELIMINARY NOTES

### Terms

As used herein, and unless the context suggest otherwise, the terms “Perion,” “Company,” “we,” “us” or “ours” refer to Perion Network Ltd. and subsidiaries. References to “dollar” and “\$” are to U.S. dollars, the lawful currency of the United States, and references to “NIS” are to New Israeli Shekels, the lawful currency of the State of Israel. This annual report contains translations of certain NIS amounts into U.S. dollars at specified rates solely for your convenience. These translations should not be construed as representations by us that the NIS amounts actually represent such U.S. dollar amounts or could, at this time, be converted into U.S. dollars at the rate indicated. Unless otherwise indicated, we have translated NIS amounts into U.S. dollars at an exchange rate of NIS 3.467 to \$1.00, the representative exchange rate reported by the Bank of Israel on the last business day before December 31, 2017.

### Forward-Looking Statements

This annual report on Form 20-F 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, as amended (the "Exchange Act"). Forward-looking statements relate to future events or our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our, or our industries', actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed, implied or inferred by these forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as “may,” “will,” “should,” “could,” “would,” “expects,” “plans,” “intends,” “anticipates,” “believes,” “estimates,” “predicts,” “projects,” “potential” or “continue” or the negative of such terms and other comparable terminology.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we do not know whether we can achieve positive future results, levels of activity, performance, or goals. Actual events or results may differ materially from our current expectations. All forward-looking statements included in this report are based on information available to us on the date of this report. Except as required by applicable law, we undertake no obligation to update or revise any of the forward-looking statements after the date of this annual report to conform those statements to reflect the occurrence of unanticipated events, new information or otherwise.

You should read this annual report and the documents that we reference in this report completely and with the understanding that our actual future results, levels of activity, performance and achievements may be materially different from what we currently expect.

Factors that could cause actual results to differ from our expectations or projections include certain risks, including but not limited to the risks and uncertainties relating to our; business, intellectual property, industry and operations in Israel, as described in this annual report under Item 3.D. – “Key Information – Risk Factors.” Assumptions relating to the foregoing, involve judgment with respect to, among other things, future economic, competitive and market conditions, and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond our control. In light of the significant uncertainties, inherent in the forward-looking information included herein, the inclusion of such information should not be regarded as a representation by us or any other person that our objectives or plans will be achieved. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time and it is not possible for our management to predict all risks, nor can we assess the impact of all risks on our business or the extent to which any risk, or combination of risks, may cause actual results to differ from those contained in any forward-looking statements.

We obtained statistical data, market data and other industry data and forecasts used in preparing this annual report from market research, publicly available information and industry publications. Industry publications generally state that they obtain their information from sources that they believe to be reliable, but they do not guarantee the accuracy and completeness of the information. Similarly, while we believe that the statistical data, industry data and forecasts and market research are reliable, we have not independently verified the data, and we do not make any representation as to the accuracy of the information.

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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**

We derived the selected operations data below for the years ended December 31, 2015, 2016 and 2017 and the selected balance sheet data as of December 31, 2016 and 2017 from our audited consolidated financial statements and the related notes to the financial statements included elsewhere herein (the "Financial Statements"). We derived the selected operations data below for the years ended December 31, 2013 and 2014 and the selected balance sheet data as of December 31, 2013, 2014 and 2015 from our audited consolidated financial statements not incorporated by reference in this report. Our consolidated financial statements are prepared and presented in U.S. dollars and in accordance with U.S. Generally Accepted Accounting Principles ("U.S. GAAP"). The following tables present selected financial data and should be read in conjunction with "Item 5 – Operating and Financial Review and Prospects" and our Financial Statements.

**Year ended December 31,**  
**(U.S. dollars in thousands, except share and per share data)**

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
<b>Revenues:</b>					
Search and other	\$ 277,275	\$ 343,655	\$ 188,897	\$ 172,683	\$ 139,505
Advertising	48,233	45,076	32,053	140,111	134,481
<b>Total Revenues</b>	<u>325,508</u>	<u>388,731</u>	<u>220,950</u>	<u>312,794</u>	<u>273,986</u>
<b>Costs and Expenses:</b>					
Cost of revenues	4,724	10,950	7,877	25,924	24,659
Customer acquisition costs and media buy	185,355	174,575	91,194	140,210	130,885
Research and development	22,057	37,427	21,692	25,221	17,189
Selling and marketing	10,172	20,792	22,886	54,559	52,742
General and administrative	18,848	36,730	31,064	28,827	21,911
Restructuring charges	-	3,981	1,052	728	-
Impairment, net of gain on reversal of contingent consideration	-	19,941	72,785	-	85,667
Depreciation and amortization	2,110.00	21,321	11,422	25,977	16,591
<b>Total Costs and Expenses</b>	<u>243,266</u>	<u>325,717</u>	<u>259,972</u>	<u>301,446</u>	<u>349,644</u>
<b>Income (Loss) from Operations</b>	82,242	63,014	(39,022)	11,348	(75,658)
Financial income (expense), net	2,782	(2,888)	(1,939)	(8,288)	(5,922)
<b>Income (Loss) before Taxes on Income</b>	85,024	60,126	(40,961)	3,060	(81,850)
Taxes on income	22,616	10,816	697	212	(8,826)
<b>Net Income (Loss) from Continuing Operations</b>	62,408	49,310	(41,658)	2,848	(72,754)
Net loss from discontinued operations	33,795	6,484	26,999	2,647	-
<b>Net Income (Loss)</b>	<u>\$ 28,613</u>	<u>\$ 42,826</u>	<u>\$ (68,657)</u>	<u>\$ 201</u>	<u>\$ (72,754)</u>
<b>Net Earnings (Loss) per Share - Basic:</b>					
Continuing operations	\$ 1.16	\$ 0.72	\$ (0.58)	\$ 0.04	\$ (0.94)
Discontinued operations	\$ (0.63)	\$ (0.10)	\$ (0.38)	\$ (0.04)	-
<b>Net Income (Loss)</b>	<u>\$ 0.53</u>	<u>\$ 0.62</u>	<u>\$ (0.96)</u>	<u>\$ 0.00*</u>	<u>\$ (0.94)</u>
<b>Net Earnings (Loss) per Share – Diluted:</b>					
Continuing operations	\$ 1.14	\$ 0.67	\$ (0.58)	\$ 0.04	\$ (0.94)
Discontinued operations	\$ (0.62)	\$ (0.09)	\$ (0.38)	\$ (0.04)	-
<b>Net Income (Loss)</b>	<u>\$ 0.52</u>	<u>\$ 0.58</u>	<u>\$ (0.96)</u>	<u>\$ 0.00*</u>	<u>\$ (0.94)</u>
<b>Number of shares continuing and discontinued:</b>					
Basic	53,910,741	68,213,209	71,300,432	76,560,454	77,549,171
Diluted	54,837,307	70,327,411	71,300,432	76,673,803	77,549,171

\* Less than \$0.01

	<b>As of December 31,</b>				
<b>Balance Sheet Data</b> <b>(U.S. dollars in thousands):</b>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Cash and cash equivalents	\$ 949	\$ 101,183	\$ 17,519	\$ 23,962	\$ 31,567
Working capital	\$ (19,682)	\$ 91,255	\$ 37,394	\$ 27,048	\$ 32,895
Total assets	\$ 31,058	\$ 356,139	\$ 442,298	\$ 368,452	\$ 274,027
Total liabilities	\$ 21,031	\$ 110,142	\$ 242,461	\$ 160,308	\$ 135,695
Shareholders' equity	\$ 10,027	\$ 245,997	\$ 199,837	\$ 208,144	\$ 138,332

**B. CAPITALIZATION AND INDEBTEDNESS**

Not applicable.

**C. REASONS FOR OFFER AND USE OF PROCEEDS**

Not applicable.

**D. RISK FACTORS**

*We are subject to various risks and uncertainties relating to or arising out of the nature of our business and general business, economic, financial, legal and other factors or conditions that may affect us. We believe that the occurrence of any one or some combination of the following factors could have a material adverse effect on our business, financial condition, cash flows and results of operations.*

***Risks Related to our Business and Industry***

**Our advertising customers may reduce or terminate their business relationship with us at any time. If customers representing a significant portion of our revenue reduce or terminate their relationship with us, it could have a material adverse effect on our business, results of operations and financial condition.**

We generally do not enter into long-term contracts with our advertising customers, and such customers do business with us on a non-exclusive basis, with no minimum spending guarantees. In most cases, our customers may terminate or reduce the scope of their agreements with little or no penalty or notice. Accordingly, our business is highly vulnerable to adverse economic conditions, market evolution and development of new or more compelling offerings by our competitors, which could either lead to reduced advertising expenditures generally or motivate our current or potential customers to migrate to our competitors. Any reduction in spending by, or loss of, existing or potential advertisers would negatively impact our revenue and operating results.

Furthermore, the discretionary, non-exclusive nature of our relationships with advertising customers subjects us to increased pricing pressure. Although we believe our rates are competitive, our competitors may be able to offer more favorable pricing or other advantageous terms. As a result, we may be compelled to reduce our rates or offer rebates or other incentives in order to maintain our current customers and attract new customers. If a significant number of customers are able to compel us to charge lower fees or provide fee concessions or refunds, there is no assurance that we would be able to compensate for such price reductions or conserve our profit margins.

**Large and established internet and technology companies, such as Google and Facebook, play a substantial role in the digital advertising market and may significantly impair our ability to operate in this industry.**

Google as an advertising publisher accounted for most U.S. online search-generated revenues, and Microsoft and Yahoo accounted for substantially all of the rest of search generated revenues. In addition, a small number of social network companies, such as Facebook, account for a large portion of digital advertising budgets. The high concentration of power among Google, Facebook and some other large market participants causes us to be subject to any unilateral changes they may make with respect to advertising on their respective platforms, which may be more lucrative than alternative methods of advertising or partnerships with other publishers that are not subject to such changes. Furthermore, we could have limited ability to respond to, and adjust for, changes implemented by large market participants.

These companies, along with other large and established Internet and technology companies, may also leverage their power to make changes to their web browsers, operating systems, platforms, networks or other products or services in a way that impacts the entire digital advertising marketplace. Google has announced that starting as of February 15, 2018, the Google Chrome internet browser will support the “Better Ads Standards” implemented by the Coalition for Better Ads, an industry body formed by leading international trade associations and companies involved in online media, and remove all ads from certain sites that violate this standard. This, together with other advertisement-blocking technologies incorporated in or compatible with leading internet browsers, could impact on Undertone’s ad units (as well as those of Undertone’s competitors). These changes could materially impact the way we do business, and if we or our advertising partners are unable to quickly and effectively adjust to those changes, there could be an adverse effect on our revenues and performance.

**The consolidation among participants within the digital advertising market could have a material adverse impact on our business and results of operations.**

The digital advertising industry has experienced substantial evolution and consolidation in recent years and we expect this trend to continue, increasing the capabilities and competitive posture of larger companies, particularly those that are already dominant in various ways, and enabling new or stronger competitors to emerge. This consolidation could adversely affect our business in a number of ways, including:

- our customers or vendors could acquire, or be acquired by, our competitors and terminate their relationship with us; and
- competitors could improve their competitive position or broaden their offerings through strategic acquisitions or mergers.

While we work with a wide variety of advertising buyers and sellers, many buyers and sellers are part of larger organizations. For example, our primary advertising customers are advertising agencies, and many of those agencies are owned, affiliated with or controlled by a small number of large holding companies. If any of these large consolidated enterprises decided to reduce or terminate their business relationship with us for any reason, it may lead to a material adverse impact on our revenue and profitability.

Further, the growing trend of consolidation of digital advertising networks, exchanges, web portals, search engines and web publishers, could harm our business. For example, we are currently able to serve, track and manage advertisements for our customers on a variety of networks and websites. These enterprises could substantially impair our ability to operate if they decide not to permit us to serve, track or manage advertisements on their websites, if they develop ad placement systems that are incompatible with our ad serving systems or if they use their market power to force their customers to use certain vendors on their networks or websites.

**If the demand for digital advertising does not continue to grow or customers do not embrace our solutions, this could have a material adverse effect on our business and financial condition.**

A substantial portion of our revenues is derived from the sale of our digital advertising solutions. We have made significant investments in our ability to deliver high impact advertising which is compatible on multiple devices and channels through internal development efforts and acquisitions. While the digital advertising market has grown in past years, it is possible it will not continue to grow, or that the demand for advertising in a specific medium or channel (such as mobile advertising) does not grow. Additionally, even if the general market for digital advertising continues to grow, customers might not embrace our solutions. If there is a reduction in general demand for digital advertising, decreases in spending for specific channels or solutions, or the demand for our specific solutions and offerings does not develop, revenues could decline or otherwise adversely affect our business.

**Due to our evolving business model and rapid changes in the Internet and the nature of services, it is difficult to accurately predict our future performance and may be difficult to increase revenue or profitability.**

We do not have an extensive history of ongoing operations in digital advertising from which to predict our future performance, and making such predictions, particularly with regard to the effect of our efforts to aggressively increase the distribution and profitability is very complex and challenging. If we are unable to continuously improve our systems and processes, this could have a negative effect on our competitiveness and ability to service and attract customers. If we are unsuccessful in doing so in a timely fashion, we may not be able to achieve revenue growth or increase our profitability.

**We depend on publishers to supply us with advertising inventory in order for us to deliver advertising campaigns in a cost-effective manner.**

We rely on a diverse set of publishers or digital media properties, including direct publishers, advertising exchange platforms and other platforms that aggregate advertising inventory, to provide us with high-quality digital advertising inventory on which we deliver ads, collectively referred to as "supply sources". The future growth of our advertising business will depend, in part, on our ability to enter into and maintain successful business relationships with these supply sources. If we are unsuccessful in establishing or maintaining our relationships with supply sources on commercially reasonable terms, or if these relationships are not profitable for us and competitive in the marketplace, our ability to compete in the marketplace or to grow our revenues from our advertising business could be impaired. Our supply sources typically supply their advertising inventory to us on a non-exclusive basis and are not required to provide any minimum amounts of advertising inventory to us or to provide us with a consistent supply of advertising inventory, at any predetermined price. Supply sources often maintain relationships with various sources of demand that compete with us, and it is easy for supply sources to quickly shift their advertising inventory among these demand sources, or to shift inventory to new demand sources, without notice or accountability. Supply sources may also seek to change the terms at which they offer inventory to us, or they may allocate their advertising inventory to our competitors who offer more favorable economic terms or whose offerings are considered more beneficial. Supply sources may also elect to sell all, or a portion, of their advertising inventory directly to advertisers and agencies, or they may develop their own competitive offerings, which could diminish the demand for our solutions. In addition, significant supply sources within the industry may enter into exclusivity arrangements with our competitors, which could limit our access to a meaningful supply of inventory. As a result of all of these factors, our supply sources may not supply us with sufficient amounts of quality advertising inventory in order for us to fulfill the demands of our advertising customers.



Additionally, our ability to access advertising inventory in a cost-effective manner may be constrained or affected as a result of a number of other factors, including, but not limited to:

- Supply sources may impose significant restrictions on the advertising inventory they sell, or may impose other unfavorable terms and conditions on the advertisers using their sites or platforms. For example, these restrictions may include frequency caps, prohibitions on advertisements from specific advertisers or specific industries, or restrictions on the use of specified creative content or advertising formats, which would restrain our supply of available inventory.
- Supply sources that offer online content and mobile applications may shift from an advertising-based monetization method to a pay for content/services model, thereby reducing available inventory.
- Social media platforms may be successful in keeping users within their sites via products such as Facebook's Instant Articles. If, as a result, users are not on the open web, advertising inventory on the open web (including our publisher's sites) may be reduced or may become less attractive to our advertising customers.
- Supply sources may be reluctant to adopt certain of our proprietary ad formats for a variety of reasons (such as user preference changes making such ad formats less desirable) resulting in limited advertising inventory supply for such formats and inhibiting our ability to scale such formats.

In summary, if our supply sources terminate or reduce our access to their advertising inventory, increase the price of inventory or place significant restrictions on the sale of their advertising inventory, or if platforms or exchanges terminate our access to them, we may not be able to replace this with inventory from other supply sources that satisfy our requirements in a timely and cost-effective manner. If any of this happens, our revenue could decline or our cost of acquiring inventory could increase, lowering our operating margins.

**Our advertising business depends on a strong brand reputation, and if we are not able to maintain and enhance our brand, our business and results of operations could be materially adversely affected.**

Maintaining and enhancing our Undertone brand is an important aspect of our efforts to attract and expand our agency, advertiser, and publisher base. We have spent, and expect to continue spending considerable sums and other resources on the establishment, building and maintenance of our Undertone brand, as well as on enhancing market awareness of it. Our Undertone brand, however, may be negatively impacted by a number of factors, including but not limited to, fraudulent, inappropriate or misleading content on publisher sites on which we serve ads, service outages, product malfunctions, data protection and security issues, and exploitation of our trademarks by others without our permission. If we are unable to maintain or enhance our Undertone brand in a cost-effective manner, our business and operating results could be materially adversely affected.

**We may be unable to deliver advertising in a brand-safe environment, which could harm our reputation and cause our business to suffer.**

It is important to advertisers that their advertisements are not placed in or near content that is unlawful or would be deemed offensive or inappropriate by their customers, or near other advertisements for competing brands or products. Unlike advertising in other mediums, we cannot guarantee that all online advertisements will appear in a brand-safe environment. If we are not successful in delivering ads in such an environment, our reputation could suffer and our ability to attract potential advertisers and retain and expand business with existing advertisers could be harmed, or our customers may seek to avoid payment or demand refunds, any of which could harm our business and operating results.

**The advertising industry is highly competitive. If we cannot compete effectively in this market, our revenues are likely to decline.**

We face intense competition in the marketplace. We operate in a dynamic market that is subject to rapid development and introduction of new technologies, products and solutions, changing branding objectives and evolving customer demands, all of which affect our ability to remain competitive. There are a large number of digital media companies and advertising technology companies that offer services similar to ours and that compete with us for finite advertising budgets and for limited inventory from publishers. There are also a large number of niche companies that are competitive with us, as they provide a subset of the services that we provide. Some of our existing and potential competitors are better established, benefit from greater name recognition, may offer solutions and technologies that we do not offer or that are more evolved than ours, and have significantly more financial, technical, sales and marketing resources than we do. In addition, some competitors, particularly those with a larger and more diversified revenue base and a broader offering, may have greater flexibility than we do to compete aggressively on the basis of price and other contract terms. Additionally, companies that do not currently compete with us in this space may change their services to be competitive if there is a revenue opportunity, and new or stronger competitors may emerge through consolidations or acquisitions. Given that the barriers to entering the digital advertising market are relatively low, the number of competitors may increase even further. If our digital advertising platform and solutions are not perceived as competitively differentiated or we fail to develop adequately to meet market evolution, we could lose customers and market share or be compelled to reduce our prices and harm our operational results.

**Our digital advertising business is susceptible to seasonality, unexpected changes in campaign size and prolonged cycle time, which could affect our business, results of operations and ability to repay indebtedness when due.**

The revenue of our digital advertising business is affected by a number of factors, including:

- Historically, our advertising solution experienced the lowest sales in the first quarter and the highest sales in the fourth quarter, with the second and third quarters being slightly stronger than the first quarter. Fourth quarter sales tend to be the highest due to a need to utilize remaining budgets, and increased customer advertising volumes during the holiday selling season.
- Product and service revenues are influenced by political advertising, which generally occurs every two years.
- In any single period, product and service revenues and delivery costs are subject to significant variation based on changes in the volume and mix of deliveries performed during such period.
- Revenues are subject to the changes of brand marketing efforts, i.e., when and where brands choose to spend their money in a given year.
- Advertising customers generally retain the right to supplement, extend, or cancel existing advertising orders at any time prior to their completion, and we have no control over the timing or magnitude of these revenue changes.
- Relative complexity of individual advertising formats, and the length of the creative design process.

As a result, our profit from these operations is seasonal, with the fourth quarter accounting for as much as almost half our annual profits and the first quarter possibly resulting in a loss. Moreover, due to the long receivable cycle and shorter payable cycle, this seasonality puts strains on our cash flow through the first and second quarter of every year. These factors could adversely impact our cash flow and our ability to meet our financial debt covenants.

**If our campaigns are not able to reach certain performance goals or we are unable to measure certain metrics proving achievement of those goals, this could have a material adverse effect on our business.**

Our advertising clients expect and often demand that our advertising campaigns achieve certain performance levels based on metrics such as user engagement, clicks or conversions, to validate their value proposition, particularly as our services can be costlier. We may have difficulty achieving or proving these performance levels for a variety of reasons. Additionally, customers may request measurement of campaign metrics that are difficult or impossible to measure. For example, it may be difficult to track view-ability on our proprietary high-impact ad units, either directly or through a third-party vendor. Accordingly, we may not be able to reach customer requested performance levels or measure certain metrics, which could cause customers to cancel campaigns, not provide repeat business or request make-goods or refunds.

**Increased availability of advertisement-blocking technologies could limit or block the delivery or display of advertisements by our solutions, which could undermine the viability of our business.**

Advertisement-blocking technologies, such as mobile apps or browser extensions that limit or block the delivery or display of advertisements, are currently available for desktop and mobile users. Further, new browsers and operating systems, or updates to current browsers or operating systems, offer native advertisement-blocking technologies to their users, such as the support of Google Chrome in blocking advertisements from web sites that violate the “Better Ads Standards” established by the Coalition for Better Ads. The more such technologies become widespread, our business may be adversely affected, and so are our financial condition and results of operations.

**Our advertising business depends on our ability to collect and use data, and any limitation on the collection and use of this data could significantly diminish the value of our solutions and cause us to lose customers and revenue.**

In most cases, when we deliver an ad, we are often able to collect certain information about the content and placement of the ad and the interaction of the user with the ad, such as whether the user clicked on the ad or watched a video. We may also be able to collect information about the user's location. As we collect and aggregate this data provided by billions of ad impressions, we analyze the data in order to optimize the placement and scheduling of ads across all of our advertising inventory and to measure performance. Our ability to access and utilize such data is crucial.

Our publishers or advertisers might decide not to allow us to collect some or all of this data or might limit our use of this data. Our ability to either collect or use data could be restricted by new laws or regulations, including, the General Data Protection Regulation in the European Union which will go into effect in May 2018, which will broaden the definition of personal data to include location data and online identifiers, which are commonly used and collected parameters in digital advertising, and impose more stringent user consent requirements, changes in technology, operating system restrictions, requests to discontinue using certain data, restrictions imposed by advertisers and publishers, industry standards or consumer choice. Interruptions, failures or defects in our data collection, analysis and storage systems could also limit our ability to aggregate and analyze data from our advertisers' advertising campaigns.

If this happens, we may not be able to optimize ad placement for the benefit of our advertisers, which could render our solutions less valuable and potentially result in loss of clients and a decline in revenues. Additional details are provided below under "Risks related to Regulatory Changes" and "—Risks Related to our Technological Environment".

**If we do not continue to innovate and provide high-quality advertising solutions and services, we may not remain competitive, and our business and results of operations could be materially adversely affected.**

Our success depends on our ability to provide customers with innovative, high-quality advertising solutions and services that foster consumer engagement. We face intense competition in the marketplace and are confronted by rapidly changing technology, evolving industry standards and consumer needs, and the frequent introduction of new products and solutions by competitors, as well as publishers themselves, that we must adapt and respond to in order to remain competitive. Therefore, our continued success depends in part upon our ability to develop new solutions and technologies, enhance our existing solutions and expand the scope of our offerings to meet the evolving needs of the industry. As a result, we must continue to invest significant resources in research and development in order to enhance our technology and our existing solutions and services, and introduce new high-quality solutions and services.

Our operating results will also suffer if our innovations are not responsive to the needs of our customers, are not appropriately timed with market opportunity or are not effectively brought to market. If we are unable to accurately forecast market demands or industry changes, if we are unable to develop or introduce our solutions and services in a timely manner, or if we fail to provide quality solutions and services that run without complication or service interruptions, we may damage our brand and our ability to retain new and existing customers or attract new customers. As online advertising technologies continue to develop, our competitors may be able to offer solutions that are, or that are perceived to be, substantially similar or better than those offered by us. Customers will not continue to do business with us if our solutions do not deliver advertisements in an appropriate and effective manner or if the advertising we deliver does not generate the desired results. If we are unable to meet these challenges, our business and results of operations could be materially adversely affected.

**Commoditization in digital advertising could have a material adverse effect on our business.**

There has been commoditization of services provided in digital advertising, resulting in margin pressure. If such commoditization occurs in areas such as high impact, this could have a material adverse effect on our business.

**Sales efforts with advertising and ad agency customers, and with advertisers of mobile applications, require significant time and expense and may ultimately be unsuccessful.**

Contracting with new advertising and ad agency customers requires substantial time and expense, and we may not be successful in establishing new relationships or in maintaining current relationships. It is often difficult to identify, engage, and market to potential advertising customers who are unfamiliar with our brand or services, and we may spend substantial time and resources educating customers about our unique offerings, including providing demonstrations and comparisons against other available solutions, without ultimately achieving the desired results. Furthermore, many of our advertising clients' purchasing and design decisions generally require input from multiple internal and external parties of these clients, requiring that we identify those involved in the purchasing decision and devote a sufficient amount of time to presenting our services to each of those decision-making individuals. We may not be able to reduce our sales and marketing expenses to correspond proportionately to periods of reduced revenues. We may not be able to reduce our sales and marketing expenses to correspond proportionately to periods of reduced revenues. If we are not successful in streamlining our sales processes with potential clients in a cost effective manner, or if our efforts are unsuccessful, our ability to grow our business may be adversely affected.

**Our growth depends in part on the success of our relationships with advertising agencies.**

While we work with some brand advertisers directly, our primary advertising customers are advertising agencies, who are paid by their brand customers to develop their media plans. The agencies, in turn, contract with third parties, like us, to execute and fulfill their brands' advertising campaigns. As a result, our future growth will depend, in part, on our ability to enter into and maintain successful business relationships with advertising agencies.

Identifying agencies, engaging in sales efforts, and negotiating and documenting our agreements with agencies requires significant time and resources. These relationships may not result in additional brand customers or campaigns for our business, and may not ultimately enable us to generate significant revenues. Our contracts with advertising agencies are typically non-exclusive and the agencies often work with our competitors or offer competing services.

When working with agencies to deliver campaigns on behalf of their brand customers, we generally bill the agency for our products and services, and in most cases, the brand has no direct contractual commitment to us to make any payments. Furthermore, some agencies contractually limit their payment obligations to us through sequential liability provisions, whereby the agency is liable for payment if, and only to the extent, that the agency collects a corresponding payment from the brand on whose behalf our services were rendered. These circumstances may result in longer collections periods, increased costs associated with pursuing brands directly for payments, or our inability to collect payments. In summary, if we are unsuccessful in establishing or maintaining our relationships with these agencies on commercially reasonable terms, or if these relationships are not profitable for us, our ability to compete in the marketplace or to grow our revenues could be impaired and our operating results would suffer.

**If the demand for social advertising does not grow as expected, or if our solution for advertising through those channels is not competitive, the revenues related to our social marketing platform could decline.**

We leverage the capabilities of Make Me Reach, our social marketing platform, to offer our customers the ability to deliver ads on social platforms. The future growth of this market could be negatively impacted if consumers decrease the time they spend engaging on social media sites or mobile applications. In addition, the demand for advertising in these channels, and the success of our social and in-app solutions in particular, may be constrained by the limited flexibility, increased requirements that are associated with advertising in these environments, and the social platforms working through independent service providers. As a result, it is difficult to predict the future customer demand for our solution, and there is no guarantee that we will be able to generate significant revenues from our social marketing platform. In addition to the foregoing, our social marketing platform is dependent on our ability to create, optimize, and manage our customers' advertising campaigns on Facebook, Instagram, Snapchat and Twitter. As a result, we are subject to each social network's respective terms and conditions governing our ability to access and utilize its platform. Our social marketing platform would be harmed if any of these social networks discontinues our partnership, makes changes to its platform, or modifies the terms and standards applicable to its marketing partners or to advertising on its platform in general. Moreover, these social networks may develop offerings or features that compete with our solution, or may otherwise make changes to their platforms that would render our social advertising solution obsolete. Further, consumers may migrate away from Facebook, Twitter, Snapchat and Instagram to other social networking platforms with which we are not affiliated, which would in turn decrease the demand for our solutions. Any of these outcomes could cause demand for our social marketing platform to decrease, our development costs to increase, and our results of operations and financial condition to be harmed.

**Our search solution depends heavily upon revenues generated from our agreement with Microsoft, and any adverse change in that agreement could adversely affect our business or its financial condition and results of operations.**

We are highly dependent on our search services agreement with Microsoft Online Inc., which covers substantially all of our search solution. Our previous agreement with Microsoft Online Inc. had a term from January 1, 2015 until December 31, 2017 (the "Microsoft Agreement"). In October 2017, we entered into an agreement with Microsoft Ireland Operations Limited effective as of January 1, 2018 until December 31, 2020 (the "Renewed Microsoft Agreement"). In 2017, the Microsoft Agreement accounted for 46% of our revenues. In this annual report we refer to Microsoft Corporation and its affiliates as Microsoft.

If our Renewed Microsoft Agreement is terminated or substantially amended (not on favorable terms), we would experience a material decrease in our search-generated revenues or the profits it generates and would be forced to seek alternative search providers, at less competitive terms. There are very few companies in the market that provide Internet search and advertising services similar to those provided by Microsoft, with Google and Yahoo being the main relevant ones. These three companies are substantially the only participants in western markets, and competitors do not offer as much coverage through sponsored links or searches. Although we have agreement with Google, we do not generate a significant amount of revenue from it. If we fail to quickly locate, negotiate and finalize alternative arrangements, or if we do, but the alternatives do not provide for terms that are as favorable as those currently provided and utilized, and we would experience a material reduction in our revenues and, in turn, our business, financial condition and results of operations would be adversely affected.

**Our search revenue business is highly reliant upon a small number of publishers, who account for the substantial majority of pay-outs to publishers and generate most of our revenues. If we were to lose all or a significant portion of those publishers as customers, our revenues and results of operations would be materially adversely affected.**

In 2017, the top ten publishers distributing our search services accounted for approximately 42% of our revenues, of which the top five publishers represented approximately 37% of our revenues (the two largest representing 15% and 11%, and the next three representing 5%, 4% and 2% of our revenues). There can be no assurance that these existing publishers will continue to distribute our search services or continue utilizing the revenue-generating monetization services at the levels they did in the past or at all. The loss of a substantial portion of our relationships with these publishers, or a substantial reduction in their level of activity, could cause a material decline in our revenues and profitability.

**The generation of revenues from search activity through large publishers is subject to competition. If we cannot compete effectively in this market, our revenues are likely to decline.**

We obtain a significant portion of our revenues through designating the Company as the default search provider during the download and installation of our publishers' products and the use of our search services and the subsequent searches performed by the users thereof. We therefore are constantly looking for more ways to distribute our search services through various means and collaborations. To achieve these goals, we rely heavily on third-party publishers to distribute our search syndication services as a value-added component of their own offerings. There are other companies that generate revenue from searches, some of them with a more significant presence than ours and with greater capability to offer substantially more content. The large search engine companies, including Google, Microsoft and others, have become increasingly aggressive in their own search service offerings. In addition, we need to continually maintain the technological advantage of our platform, products and other services in order to attract partners to our offering. If the search engine companies engage more direct relationships with publishers or we are unable to maintain the technological advantage to service our partners, we may lose both existing and potential new partner publishers and our ability to generate revenues will be negatively impacted.

**In order to receive advertisement-generated revenues from our search partners, we depend, in part, on factors outside of our control.**

The amount of revenue we receive from each of our search partners depends upon a number of factors outside of our control, including the amount these search providers charge for advertisements, the efficiency of the search provider's system in attracting advertisers and syndicating paid listings in response to search queries and parameters established by it regarding the number and placement of paid listings displayed in response to search queries. In addition, each of the search partners makes judgments about the relative attractiveness (to the advertiser) of clicks on paid listings from searches performed on or through our search assets, and these judgments factor into the amount of revenue we receive. Changes in the efficiency of a search partner's paid listings network, in its judgment about the relative attractiveness of clicks on paid listings or in the parameters applicable to the display of paid listings could have an adverse effect on our business, financial condition and our results of operations. Such changes could come about for a number of reasons, including general market conditions, competition or policy and operating decisions made by Microsoft or Google or our other search partners.

**We have experienced a decline in our search solution, and market perception has not been favorable. As a result, we may have difficulty stemming this decline or offsetting it by entering new markets.**

For a prolonged period of time, we have experienced a decline in revenues and an increasingly negative market bias regarding a major source of revenues - our search-generated revenues. The combination of these factors presents challenges in:

- recruiting and retaining highly qualified personnel for our current business and the new business we are developing;
- attracting and acquiring customers and partners to support and expand our business; and
- raising funds or utilizing our equity to facilitate acquisitions.

If we cannot maintain the commitment of our employees, recruit new employees and make the acquisitions required to enhance our organic activity, we may not be able to stem the decline in this business and our financial results will suffer.

Our reputation has been and may continue to be negatively impacted by a number of factors, including the negative reputation associated with search assets, search setting take-over, toolbars, product and service quality concerns, complaints by publishers or end users or actions brought by them or by governmental or regulatory authorities and related media coverage and data protection and security breaches. Moreover, the inability to develop and introduce monetization products and services that resonate with consumers and/or the inability to adapt quickly enough (and/or in a cost effective manner) to evolving changes to the Internet and related technologies, applications and devices, could adversely impact our reputation, and, in turn, our business, financial condition and our results of operations.

**We rely heavily on the ability to offer our search services to our publishers and, as a result of such action, to obtain and retain the search properties of their users. Should this method of distribution be blocked, constrained, limited, materially changed, based on a change of guidelines, technology or otherwise (as has happened in the past), or made redundant by any of our search engine providers, particularly Microsoft, our ability to generate revenues from our users' search activity could be significantly reduced.**

Our search distribution agreements with Microsoft and other search partners require that we comply with certain guidelines promulgated by them for the use of their brands and services, including the manner in which their paid listings are displayed within search results, and that we establish guidelines to govern certain activities of third parties to whom we syndicate the search services, including the manner in which those parties drive search traffic to their websites and display paid listings. Subject to certain limitations, our search partners may unilaterally update their policies and guidelines, which could, in turn, require modifications to, or prohibit and/or render obsolete certain of our products, services and practices, which could be costly to address or otherwise have an adverse effect on our business, our financial condition and results of operations. Noncompliance with our search partners' guidelines, particularly Microsoft's, by us or by third parties to which we syndicate paid listings or by the publishers through whom we secure distribution arrangements for our products could, if not cured, result in such companies' suspension of some or all of their services to us, or to the websites of our third party publishers, or the reimbursement of funds paid to us by our search partners, or the imposition of additional restrictions on our ability to syndicate paid listings or distribute our products or the termination of the search distribution agreement by our search partners.

These guidelines, with respect to method of distribution, homepage resets and default search resets to search engine services, were changed by both Microsoft and Google numerous times in the past, having negative revenue implications. Since then, both companies have continued instituting other changes to the policies governing their relationship with search partners.

As a result, fewer and fewer substantial publishing partners are compliant with these requirements, resulting in the termination of our business relationship with them and increasing the concentration of revenues generated through each of our remaining partners. Should any of our large partnerships be deemed non-compliant, blocked or partner with another provider, it could be difficult to replace the revenues generated by that partnership and we would experience a material reduction in our revenues and, in turn, our business, financial condition and results of operations would be adversely affected.

**Should the providers of the underlying platforms, particularly browsers, further block, constrain or limit our ability to offer or change search properties, or materially change their guidelines, technology or the way they operate, our ability to generate revenues from our users' search activity could be significantly reduced.**

As we provide our services through the Internet, we are reliant on our ability to work with the different Internet browsers. The Internet browser market is extremely concentrated with Google's Chrome, Microsoft's Internet Explorer, Microsoft Edge and Mozilla's Firefox, accounting for over 90% of the desktop browser market in the aggregate in 2017, and Google's Chrome alone accounting for over 63%, based on StatCounter reports. In June 2014, Google restricted the ability to install multi-purpose extensions onto its Chrome Internet browser. As most of our products and services offered such multi-purpose extensions at that time, this policy shift adversely affected our business. Since then, Google continued to further change and update its policies and technology in general, and specifically those relating to Chrome. Each such change further limits and constrains our ability to offer or change search properties. The operating system market is very concentrated as well, with Microsoft Windows dominating over 83% of the market in 2017, and Apple operating systems accounting for 11% of that market, based on StatCounter reports. In addition, during 2015, Microsoft announced changes to its browser modifier detection criteria and issued a new operating system (Windows 10), which included a new default Internet browser (Edge). Some of these changes limited our ability to maintain our users' browser settings. If Microsoft, Google, Apple or other companies that provide Internet browsers, operating systems or other underlying platforms, effectively further restrict, discourage or otherwise hamper companies, like us, from offering or changing search services, this would continue to cause a material adverse effect on our revenue and our financial results.

**Currently most individuals are using mobile devices to access the Internet, while substantially all of our search revenue generation and services are currently not usable on mobile platforms. Also, web-based software and similar solutions are impacting the attractiveness of downloadable software products.**

The market related to desktop computers has accounted for substantially all our search revenues. As Internet usage continues to shift from desktop computers to mobile devices, there is downward pressure on desktop revenues in general and in our search solution in particular. Recently, the number of individuals who access the Internet through devices other than desktop computers, such as mobile phones, tablets, etc., has increased dramatically. While we have begun developing other models and solutions for mobile platforms and we have acquired Make Me Reach SAS ("Make Me Reach") and Interactive Holding Corp. and its subsidiaries (collectively referred to as "Undertone"), our search and application services are not yet compatible with these alternative platforms and devices and substantially all of our search revenue to date has come from desktop computers. If this trend towards using the Internet on non-desktop devices accelerates, some of our services will become less relevant and may fail to attract advertisers and web traffic. In addition, even if consumers do use our services, our revenue growth will still be adversely affected if we do not rapidly and successfully implement revenue-generating models for mobile platforms.

Web (or "cloud") based software and similar solutions do not require the user to download software and thus provide a very portable and accessible alternative for desktop computers, as compared to downloadable software. While there are advantages and disadvantages to each method and system and the markets for each of them remain large, the market for web-based systems is growing at the expense of downloadable software. Should this trend accelerate faster than our partners' ability to provide differentiating advantages in their downloadable solutions, this could result in fewer downloads of their products and lower search revenues generated through the download of these products. See "Item 4.B Business Overview — Competition" for additional discussion of our competitive market.

**Our software or provision of search services or advertising is occasionally blocked by software or utilities designed to protect users' computers, thereby causing our business to suffer.**

Some of our products and offerings are viewed by some third parties, such as anti-virus software providers, as promoting or constituting "malware" or "spamming," or unjustly changing the user's computer settings. As a result, our software, the software of our publishers, provision of search services or advertising is occasionally blocked by software or utilities designed to detect such practices. If this phenomenon increases or if we are unable to detect and effectively deal with such categorization of our products, we may lose both existing and potential new users and our ability to generate revenues will be negatively impacted.

#### ***Risks related to our Financial and Corporate Structure***

**If we fail to comply with the terms or covenants of our debt obligations, our financial position may be adversely affected.**

As of December 31, 2017, we had convertible bonds outstanding having an aggregate principal amount of approximately NIS 86.1 million (then equivalent to approximately \$24.8 million). In the event that we fail to comply with the terms or covenants of our convertible bonds and cannot obtain a waiver of noncompliance, we may be required to immediately repay all of our outstanding indebtedness and the bond trustee may be entitled to exercise the remedies available under the applicable agreement and applicable law.

In addition, if Undertone fails to comply with the terms and/or covenants secured loan agreement, Undertone may be required to immediately repay all of its outstanding indebtedness under the loan agreement. In connection with the publication of our financial results for the fiscal quarter ended September 30, 2017, we affected the cure provisions under the terms of the secured loan agreement due to failure to meet certain financial covenants included therein. In March 2018, we entered into an amendment to the secured loan agreement, including, among others, adjustments to the financial covenants. For further information, see "Item 5. Operating and Financial Review and Prospects - Liquidity and Capital Resources - Credit facilities".

There is no assurance that our operating results will enable us to meet our covenants and financial ratios as of the end of each fiscal quarter. Our inability to comply with the repayment schedules, covenants or financial ratios under our debt instruments could result in a material adverse effect on us.

**The terms of our credit facilities contain restrictive covenants that limit our business, financing and investing activities.**

The terms of our credit facilities include customary covenants that impose restrictions on our business, financing and investing activities, subject to certain exceptions or the consent of our lenders including, among other things, limits on our ability to incur additional debt, create liens, enter into merger, acquisition and divestiture transactions, pay dividends and engage in transactions with affiliates. The credit facilities also contain certain customary affirmative covenants and events of default. Our ability to comply with the covenants may be adversely affected by events beyond our control, including but not limited to, economic, financial and industry conditions. A breach of any credit facility covenant that is not cured or waived may result in an event of default. This may allow our lenders to terminate the commitments under the credit facilities, declare all amounts outstanding under the credit facilities, together with accrued interest, to be immediately due and payable, and to exercise other rights and remedies. If this occurs, we may not be able to refinance the accelerated indebtedness on acceptable terms, or at all, or otherwise repay the accelerated indebtedness, which could have a material adverse effect on us.

In addition, certain covenants also limit our flexibility in planning for, or reacting to, changes in our business and our industry. Complying with these covenants limits our tax planning abilities, our ability to pay dividends and may impair our ability to finance our future operations, acquisitions or capital needs or to engage in other favorable business activities.

**A loss of the services of our senior management and other key personnel could adversely affect execution of our business strategy.**

We depend on the capabilities and experience, and the continued services, of our senior management. The loss of the services of members of our senior management could create a gap in management and could result in the loss of expertise necessary for us to execute our business strategy and thereby adversely affect our business.

We do not currently have "key person" life insurance with respect to any of our senior management.

Further, our ability to execute our business strategy also depends on our ability to continue to attract, retain and motivate qualified and skilled technical and creative personnel and skilled management, marketing and sales personnel, as well as third party technology vendors. Competition for well-qualified employees in our industry is intense and our continued ability to compete effectively depends, in part, upon our ability to retain existing key employees and to attract new skilled employees as well. If we cannot attract and retain additional key employees or if we lose one or more of our current key employees, our ability to develop or market our products and attract or acquire new users could be adversely affected. Although we have established programs to attract new employees and provide incentives to retain existing employees, particularly senior management, we cannot be assured that we will be able to retain the services of senior management or other key employees as we continue to integrate and develop our solutions or that we will be able to attract new employees in the future who are capable of making significant contributions. See "Item 6 Directors, Senior Management and Employees."

**We have acquired and may continue to acquire other businesses. These acquisitions divert a substantial part of our resources and management attention and have in the past and could in the future, cause further dilution to our shareholders and adversely affect our financial results.**

We acquired Smilebox in August 2011, SweetIM in November 2012, ClientConnect in January 2014, Grow Mobile in July 2014, Make Me Reach in February 2015, and Undertone in November 2015, and we may continue to acquire complementary products, technologies or businesses. Seeking and negotiating potential acquisitions to a certain extent diverts our management's attention from other business concerns and is expensive and time-consuming. Acquisitions expose us and our business to unforeseen liabilities or risks associated with the business or assets acquired or with entering new markets. In addition, we lost and might continue to lose key employees and vendors while integrating new organizations and may not effectively integrate the acquired products, technologies or businesses or achieve the anticipated revenues or cost benefits, and we might harm our relationships with our future or current technology suppliers. Future acquisitions could result in customer dissatisfaction or vendor dissatisfaction or performance problems with an acquired product, technology or company. Paying the purchase price for acquisitions in the form of cash, debt or equity securities may weaken our cash position, increase our leverage or dilute our existing shareholders, as applicable. Furthermore, a substantial portion of the price paid for these acquisitions is typically for intangible assets. We may incur contingent liabilities, amortization expenses related to intangible assets or possible impairment charges related to goodwill or other intangible assets (which has occurred in the past) or become subject to litigation or other unanticipated events or circumstances relating to the acquisitions, and we may not have, or may not be able to enforce, adequate remedies in order to protect our Company. Moreover, acquisitions may end up in losses, unwanted results and waste of valuable resources, time and money.



**We have recognized impairments in the carrying value of goodwill and purchased intangible assets. Additional such charges in the future could negatively affect our results of operations and shareholders' equity.**

We continue to have a substantial amount of goodwill and purchased intangible assets on our consolidated balance sheet as a result of historical acquisitions. The carrying value of goodwill represents the fair value of an acquired business in excess of identifiable assets and liabilities as of the acquisition date. The carrying value of intangible assets with identifiable useful lives represents the fair value of relationships, content, domain names and acquired technology, among other things, as of the acquisition date, and are amortized based on their economic lives. Goodwill that is expected to contribute indefinitely to our cash flows is not amortized but must be evaluated for impairment at least annually. If the carrying value exceeds current fair value as determined based on the discounted future cash flows of the related business, the goodwill or intangible asset is considered impaired and is reduced to fair value via a non-cash charge to earnings. Events and conditions that could result in impairment include adverse changes in the regulatory environment, a reduced market capitalization or other factors leading to reduction in expected long-term growth or profitability. Goodwill impairment analysis and measurement is a process that requires significant judgment. Our stock price and any control premium are factors affecting the assessment of the fair value of our underlying reporting units for purposes of performing any goodwill impairment assessment.

In 2017, we recorded an impairment charge in the total amount of approximately \$85.7 million. In particular, our Undertone reporting unit is at risk for goodwill impairment based on the volatility of this business and the market within which it competes. See Item 5A. "Operating and Financial Review and Prospects-Operating Results-Critical Accounting Policies and Estimates-Goodwill." We will continue to conduct impairment analyses of our goodwill as required. Further impairment charges with respect to our goodwill would have a material adverse effect on our results of operations and shareholders' equity in future periods.

**Several shareholders may be able to control us.**

As a result of the ClientConnect Acquisition, several shareholders of Conduit became significant shareholders of Perion, including three shareholders that each beneficially own more than 5% of our outstanding shares as of March 12, 2018. One of these shareholders is currently a member of our board of directors. See Item 7.A for more information. To our knowledge, these shareholders are not party to a voting agreement with respect to our shares. However, should they or other large shareholders decide to act together, they may have the power to control the outcome of matters submitted for the vote of shareholders. In addition, such share ownership may make certain transactions more difficult and result in delaying or preventing a change in control of the company, unless approved by them.

**Our share price has fluctuated significantly and could continue to fluctuate significantly.**

The market price for our ordinary shares, as well as the prices of shares of other Internet companies, has been volatile. Between January 2017 and March 2018, our share price has fluctuated from a high of \$2.38 to a low of \$0.83, and the average trading volume has been relatively low. The following factors may cause significant fluctuations in the market price of our ordinary shares:

- fluctuations in our quarterly revenues and earnings or those of our competitors;
- pending sales into the market due to the sale of large blocks of shares, due to, among other reasons, the expiration of any tax-related or contractual lock-ups with respect to significant amounts of our ordinary shares;
- shortfalls in our operating results compared to levels forecast by us or securities analysts;
- changes in our senior management;
- changes in regulations or in policies of search engine companies or other industry conditions;

- mergers and acquisitions by us or our competitors;
- technological innovations;
- the introduction of new products;
- the conditions of the securities markets, particularly in the Internet and Israeli sectors; and
- political, economic and other developments in Israel and worldwide.

In addition, share prices of many technology companies in general and ad-tech companies in particular fluctuate significantly for reasons that may be unrelated or disproportionate to operating results. The factors discussed above may depress or cause volatility to our share price, regardless of our actual operating results.

**Class action litigation due to share price volatility or other factors could cause us to incur substantial costs and divert our management’s attention and resources.**

Historically, public companies that experience periods of volatility in the market price of their securities and/or engage in substantial transactions are sometimes the target of class action litigation. Companies in the Internet and software industry, such as ours, are particularly vulnerable to this kind of litigation as a result of the volatility of their stock prices and their regular involvement in transactional activities. In the past, we were named as a defendant in this type of litigation in connection with our acquisition of ClientConnect, and although this lawsuit was dismissed, in the future litigation of this sort could result in considerable costs and a diversion of management’s attention and resources.

**Future sales of our ordinary shares could reduce our stock price.**

As of March 12, 2018, there were outstanding an aggregate of 13,352,484 options to purchase our ordinary shares. As these securities vest, the holders thereof could sell the underlying shares without restrictions, except for the volume limitations under Rule 144 applicable to our affiliates.

Sales by shareholders of substantial amounts of our ordinary shares, or the perception that these sales may occur in the future, could materially and adversely affect the market price of our ordinary shares. Furthermore, the market price of our ordinary shares could drop significantly if our executive officers, directors, or certain large shareholders sell their shares, or are perceived by the market as intending to sell them.

**Exchange rate fluctuations may harm our earnings and asset base if we are not able to hedge our currency exchange risks effectively.**

A significant portion of our costs, primarily personnel expenses, are incurred in NIS. Inflation in Israel may have the effect of increasing the U.S. dollar cost of our operations in Israel. Further, whenever the U.S. dollar declines in value in relation to the NIS, it will become more expensive for us to fund our operations in Israel. A revaluation of one percent of the NIS as compared to the U.S. dollar could impact our income before taxes by approximately \$0.1 million. The exchange rate of the U.S. dollar to the NIS has been volatile in the past, increasing by less than 1% in 2015, decreasing by approximately 1% in 2016 and decreasing by approximately 10% in 2017. As of December 31, 2017, we had a foreign currency net liability of approximately \$15.8 million (which number includes approximately \$16.7 million in long-term NIS denominated convertible bonds that we issued in Israel in September 2014), and our total foreign exchange gain was approximately \$0.2 million for the year ended December 31, 2017. To assist us in assessing whether or not, and how to, hedge risks associated with fluctuations in currency exchange rates, we have contracted a consulting firm proficient in this area, and are generally implementing their proposals. However, due to market conditions, volatility and other factors, we do not always implement our consultant’s proposals in full and our consultant’s proposals do not always prove to be effective and may even prove harmful. We may incur losses from unfavorable fluctuations in foreign currency exchange rates. See “Item 11 Quantitative and Qualitative Disclosure of Market Risks” for further discussion of the effects of exchange rate fluctuations on earnings.

**We do not intend to pay cash dividends.**

Although we have paid cash dividends in the past, our current policy is to retain future earnings, if any, for funding growth and reducing our debt. If we do not pay dividends, long term holders of our shares will generate a return on their investment only if the market price of our shares appreciates between the date of purchase and the date of sale of our shares.

See “Item 8.A Consolidated Statements and Other Financial Information — Policy on Dividend Distribution” for additional information regarding the payment of dividends.

**We are subject to ongoing costs and risks associated with complying with extensive corporate governance and disclosure requirements.**

As an Israeli public company, traded on NASDAQ, we incur significant legal, accounting and other expenses. We incur costs associated with our public company reporting requirements as well as costs associated with corporate governance and public disclosure requirements, including requirements under the Sarbanes-Oxley Act of 2002, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, the Listing Rules of the NASDAQ Stock Market, regulations of the SEC, the provisions of the Israeli Securities Law that apply to dual listed companies (companies that are listed on the Tel Aviv Stock Exchange Ltd. (“TASE”) and another recognized stock exchange located outside of Israel) and the provisions of the Israeli Companies Law 5759-1999 (the “Companies Law”) that apply to us. For example, as a public company, we have created additional board committees and elected two external directors pursuant to the Companies Law. We have also contracted an internal auditor and a consultant for implementation of and compliance with the requirements under the Sarbanes-Oxley Act. Section 404 of the Sarbanes-Oxley Act requires an annual assessment by our management of our internal control over financial reporting of the effectiveness of these controls as of year-end. In connection with our efforts to comply with Section 404 and the other applicable provisions of the Sarbanes-Oxley Act, our management and other personnel devote a substantial amount of time, and we have hired, and may need to hire, additional accounting and financial staff to assure that we comply with these requirements. We are also required to have our independent registered public accounting firm issue an opinion on the effectiveness of our internal control over financial reporting on an annual basis. During the evaluation and testing process, if we identify one or more material weaknesses in our internal control over financial reporting, we will be unable to assert that our internal control over financial reporting is effective. If we are unable to assert that our internal control over financial reporting is effective, or if our independent registered public accounting firm is unable to express an opinion on the effectiveness of our internal control over financial reporting, we could lose investor confidence in the accuracy and completeness of our financial reports, which could cause the price of our common stock to decline, and we may be subject to investigation or sanctions by the SEC. The additional management attention and costs relating to compliance with the foregoing requirements could adversely affect our financial results. See “Item 5 Operating and Financial Review and Prospects — Overview — General and Administrative Expenses” for a discussion of our increased expenses as a result of being a public company.

**If we lose our foreign private issuer status under U.S. federal securities laws, we would incur additional expenses associated with compliance with the U.S. securities laws applicable to U.S. domestic issuers.**

We are a foreign private issuer, as such term is defined under U.S. federal securities laws, and, therefore, we are not required to comply with all of the periodic disclosure and current reporting requirements applicable to U.S. domestic issuers. If we lost our foreign private issuer status, we would be required to comply with the reporting and other requirements applicable to U.S. domestic issuers, which are more extensive than the requirements for foreign private issuers and more expensive to comply with.

**Our business could be negatively affected as a result of actions of activist shareholders, and such activism could impact the trading value of our securities.**

In recent years, certain Israeli issuers listed on United States exchanges, as well as our Company, have been faced with governance-related demands from activist shareholders, as well as unsolicited tender offers and proxy contests. Although as a foreign private issuer we are not subject to U.S. proxy rules, responding to these types of actions by activist shareholders could be costly and time-consuming, disrupting our operations and diverting the attention of management and our employees. Such activities could interfere with our ability to execute our strategic plan. In addition, a proxy contest for the election of directors at our annual meeting would require us to incur significant legal fees and proxy solicitation expenses and require significant time and attention by management and our board of directors. The perceived uncertainties due to these potential actions of activist shareholders also could affect the market price and volatility of our securities.

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

We are incorporated under Israeli law. The rights and responsibilities of holders of our ordinary shares are governed by our memorandum of association, articles of association and by Israeli law. These rights and responsibilities differ in some respects from the rights and responsibilities of shareholders in typical U.S. corporations. In particular, a shareholder of an Israeli company has a duty to act in good faith in exercising his or her rights and fulfilling his or her obligations toward the company and other shareholders and to refrain from abusing his or her power in the company, including, among other things, in voting at the general meeting of shareholders on certain matters. Israeli law provides that these duties are applicable in shareholder votes at the general meeting with respect to, among other things, amendments to a company’s articles of association, increases in a company’s authorized share capital, mergers and actions and transactions involving interests of officers, directors or other interested parties which require shareholders’ approval. There is little case law available to assist in understanding the implications of these provisions that govern shareholder behavior.

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

As a foreign private issuer, whose shares are listed on NASDAQ, we are permitted to follow certain home country corporate governance practices instead of certain requirements contained in the NASDAQ listing rules. We follow the requirements of the Companies Law in Israel, rather than comply with the NASDAQ requirements, in certain matters, including with respect to the quorum for shareholder meetings, sending annual reports to shareholders, and shareholder approval with respect to certain issuances of securities. See “Item 16.G – Corporate Governance” in this Annual Report for a more complete discussion of the NASDAQ Listing Rules and the home country practices we follow. As a foreign private issuer listed on NASDAQ, we may also elect in the future to follow home country practice with regard to other matters as well. Accordingly, our shareholders may not be afforded the same protection as provided under NASDAQ’s corporate governance rules to shareholders of U.S. domestic companies.

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

Israeli corporate law regulates mergers, requires tender offers for acquisitions of shares above specified thresholds, requires special approvals for transactions involving directors, officers or significant shareholders and regulates other matters that may be relevant to these types of transactions. In addition, our articles of association contain provisions that may make it more difficult to acquire our Company, such as provisions establishing a staggered board. Furthermore, Israeli tax considerations may make potential transactions unappealing to us or to some of our shareholders. See “Item 10.B Memorandum and Articles of Association — Approval of Related Party Transactions” and “Item 10.E – Taxation — Israeli Taxation” for additional discussion about some anti-takeover effects of Israeli law.

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

**If we do not satisfy the NASDAQ requirements for continued listing, our ordinary shares could be delisted from NASDAQ.**

Our listing on the NASDAQ Stock Market is contingent on our compliance with the NASDAQ’s conditions for continued listing. One of such conditions is maintaining a bid price for our ordinary shares of least \$1.00 per share. Recently the price of our ordinary shares dropped below \$1.00 per share. If our ordinary shares trade for 30 consecutive business days below the \$1.00 minimum closing bid price requirement, NASDAQ will send us a deficiency notice giving us 180 calendar days to regain compliance, such as by effecting a reverse share split. There is no assurance that our share price will not continue to be below \$1.00 per share for a period of 30 consecutive business days or, if it does, that we will be able to regain compliance in a timely manner. If our ordinary shares are delisted from NASDAQ, their liquidity and price may decline.

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

Our ordinary shares are traded on the NASDAQ Global Select Market and on TASE. Trading in our ordinary shares on these markets is effected in different currencies (U.S. dollars on NASDAQ and NIS on TASE) and at different times (resulting from different time zones, different trading days per week and different public holidays in the United States and Israel). Consequently, the trading prices of our ordinary shares on these two markets often differ, resulting from the factors described above as well as differences in exchange rates and from political events and economic conditions in the United States and Israel. Any decrease in the trading price of our ordinary shares on one of these markets could cause a decrease in the trading price of our ordinary shares on the other market.

## ***Risks related to our Technological Environment***

### **Our financial performance may be materially adversely affected by information technology, insufficient cyber security and other business disruptions.**

Our business is constantly challenged and may be impacted by disruptions, including information technology attacks or failures. Cybersecurity attacks, in particular, are evolving and include, but are not limited to, malicious software, attempts to gain unauthorized access to data, and other electronic security breaches that could lead to disruptions in systems, unauthorized release of confidential or otherwise protected information and corruption of data and overloading our servers and systems with communications and data. Unidentified groups have hacked numerous Internet websites and servers, including our own, for various reasons, political, commercial and other. Given the unpredictability of the timing, nature and scope of such disruptions, we could potentially be subject to substantial system downtimes, operational delays, other detrimental impacts on our operations or ability to provide products and services to our customers, the compromising of confidential or otherwise protected information, destruction or corruption of data, security breaches, other manipulation or improper use of our systems and networks, financial losses from remedial actions, loss of business or potential liability, and/or damage to our reputation, any of which could have a material adverse effect on our cash flows, competitive position, financial condition and results of operations. Although these attacks cause certain difficulties, they have not had a material effect on our business, financial condition or results of operations. However, there can be no assurance that such attacks can be prevented or that any such incidents will not have a material adverse effect on us in the future.

### **If we fail to detect or prevent suspicious traffic or other invalid traffic or engagement with our ads, or otherwise prevent against malware intrusions, we could lose the confidence of our advertisers, damage our reputation and be responsible to make-good or refund demands, which would cause our business to suffer.**

Our business relies on delivering positive results to our advertisers and their consumers. We are exposed to the risk of fraudulent or suspicious impressions, clicks or conversions that advertisers may perceive as undesirable. Such fraudulent activities may occur when a software program, known as a bot, spider or crawler, intentionally simulates user activity causing impressions, ad engagements or clicks to be counted as real users. Such malicious software programs can run on single machines or on tens of thousands of machines, making them difficult to detect and filter.

If fraudulent or other malicious activity is perpetrated by others, and we are unable to detect and prevent it, the affected advertisers may experience or perceive a reduced return on their investment. High levels of invalid or fraudulent activity could lead to dissatisfaction with our advertising services, refusals to pay, refund or make-good demands, or withdrawal of future business. Any of these occurrences could damage our brand and lead to a loss of our revenue.

### **A loss of the services of our technology vendors could adversely affect execution of our business strategy.**

Should some of our technology vendors terminate their relationship with us, our ability to continue the development of some of our products could be adversely affected, until such time that we find adequate replacement for these vendors, or until such time that we can continue the development on our own.

### **We may not be able to enhance our platform to keep pace with technological and market developments in our evolving industry.**

To keep pace with technological developments, satisfy increasing developer requirements, maintain the attractiveness and competitiveness of our advertising solutions and ensure compatibility with evolving industry standards, we will need to regularly enhance our platform and develop and introduce new services on a timely basis. We also must update our software to reflect changes in advertising networks' application programming interfaces ("APIs"), technological integration and terms of use. The success of any enhancement or new solution depends on several factors, including timely completion, adequate quality testing, appropriate introduction and market acceptance. Our inability, for technological, business or other reasons, to timely enhance, develop, introduce and deliver compelling advertising services in response to changing market conditions and technologies or evolving expectations of advertisers or consumers could hurt our ability to grow our mobile marketing business.

### **Our products operate in a variety of computer and device configurations and could contain undetected errors or defects that could result in product failures, lost revenues and loss of market share.**

Our software and advertising products may contain undetected errors, failures or defects, especially when the products are first introduced or when new versions are released. Our customers' computer and other device environments are often characterized by a wide variety of standard and non-standard configurations that make pre-release testing for programming or compatibility errors very difficult and time-consuming. As a result, there could be errors or failures in our products. In addition, despite testing by us and beta testing by some of our users, errors, failures or bugs may not be found in new products or releases until after commencement of commercial sales. In the past, we have discovered software errors, failures and defects in certain of our product offerings after their full introduction and have experienced delayed or lost revenues during the period required to correct these errors.

Errors, failures or defects in products released by us could result in negative publicity, product returns, make-goods, refunds, loss of or delay in market acceptance of our products, loss of competitive position or claims by customers. Alleviating any of these problems could require significant expense and resources and could cause interruptions to our products.

**We depend on third party Internet and telecommunication providers to operate our websites and web-based services. Temporary failure of these services, including catastrophic or technological interruptions, would materially reduce our revenues and damage our reputation, and securing alternate sources for these services could significantly increase our expenses and be difficult to obtain.**

Our third-party Internet and telecommunication providers may experience disruptions, which would reduce our revenues and increase our costs. We also rent the services of approximately 400 servers located around the world, mainly through Amazon Web Services. While we believe that there are many alternative providers of hosting and other communication services available to us, the costs associated with any transition to a new service provider could be substantial. Furthermore, although we maintain back-up systems for most aspects of our operations, we could still experience deterioration in performance or interruption in our systems, delays, and loss of critical data and registered users and revenues.

Our backup systems are also not fully redundant and our disaster recovery planning may not be sufficient for all eventualities. In addition, we may have inadequate insurance coverage to compensate us for losses from a major interruption. Furthermore, interruptions in our website could materially impede our ability to attract new companies to advertise on our website and to maintain relationships with current advertisers. Difficulties of this kind could damage our reputation, be expensive to remedy and curtail our growth.

**The introduction of new browsers and other popular software products may materially adversely affect user engagement with our search services.**

Users typically install new software and update their existing software as new or updated software is introduced online by third-party developers. In addition, when a user purchases a new computing device or installs a new Internet browser, it generally uses the Internet search services that are typically pre-installed on the new device or Internet browser. Our products are distributed online and are usually not pre-installed on computing devices. Further, as many software vendors that distribute their solutions online also offer search services alongside their primary software product, users often replace our search services with those provided by these vendors in the course of installing new software or updating existing software. After users have installed search solutions offered by us, any event that results in a significant number of our users changing or upgrading their Internet browsers could result in the failure to generate the revenues that we anticipate from our users and result in a decline in our user base. Finally, although we constantly monitor the compatibility of our Internet search services and related solutions with such new versions and upgrades, we may not be able to make the required adjustments to ensure constant availability and compatibility of such solutions.

#### *Risks related to Regulatory Changes*

**Regulatory, legislative, or self-regulatory developments relating to e-commerce, Internet advertising, privacy and data collection and protection, and uncertainties regarding the application or interpretation of existing laws and regulations, could harm our business.**

Our business is conducted through the Internet and therefore, among other things, we are subject to the laws and regulations that apply to e-commerce and online businesses around the world. These laws and regulations are becoming more prevalent in the United States, Europe, Israel, Canada and elsewhere and may impede the growth of the Internet and consequently our services. These regulations and laws may cover user privacy, data collection and protection, location of data storage and processing, content, use of “cookies,” access changes, “net neutrality,” pricing, advertising, distribution of “spam,” intellectual property, distribution of products, protection of minors, consumer protection, taxation and online payment services.

Many areas of the law affecting the Internet remain largely unsettled, even in areas where there has been some legislative action. This uncertainty can be compounded when services hosted in one jurisdiction are directed at users in another jurisdiction. For instance, European data protection rules may apply to companies which are not established in the European Union. The General Data Protection Regulation (which will go into effect in May 2018) will likely have an even wider territorial scope, broaden the definition of personal data to include location data and online identifiers, and impose more stringent user consent requirements. Further, it will include stringent operational requirements for companies that process personal data and will contain significant penalties for non-compliance. Also in other relevant subject matters, such as cyber security, e-commerce, copyright and cookies, new European initiatives have been announced by the European regulators. To further complicate matters in Europe, to date, member States have some flexibility when implementing European Directives, which can lead to diverging national rules. Similarly, there have been laws and regulations adopted in Israel and throughout the United States that would impose new obligations in areas such as privacy, in particular protection of personally identifiable information and implementing adequate security measures to protect such information, and liability for copyright infringement by third parties. Therefore, it is difficult to determine whether and how existing laws, such as those governing intellectual property, privacy, data collection and protection, libel, marketing, data security and taxation, apply to the Internet and our business.

Due to rapid changes in technology and the inconsistent interpretations of privacy and data protection laws, we may be required to materially change the way we do business. For example, we may be required to implement physical, administrative and technological security measures that differ from those we have now, such as different data access controls or encryption technology. In addition, we use cloud-based computing, which is not without substantial risk, particularly at a time when businesses of almost every kind are finding themselves subject to an ever-expanding range of state and federal data security and privacy laws, document retention requirements, and other standards of accountability. Compliance with such existing and proposed laws and regulations can be costly and can delay, or impede the development of new products, result in negative publicity, increase our operating costs, require significant management time and attention and subject us to inquiries or investigations, claims or other remedies, including fines or demands that we modify or cease existing business practices.

In addition to compliance with government regulations, Undertone voluntarily participates in several trade associations and industry self-regulatory groups that promulgate best practices or codes of conduct relating to digital advertising, including the Internet Advertising Bureau, the Network Advertising Initiative and the Digital Advertising Alliance. We could be adversely affected by new or altered self-regulatory guidelines that are inconsistent with our current practices or in conflict with applicable laws and regulations in the United States, Europe, Israel and other regions where we do business. If we fail to abide by or are perceived as not operating in accordance with industry best practices or any industry guidelines or codes with regard to privacy or the provision of Internet advertising, our reputation may suffer and we could lose relationships with both buyers and sellers.

For more information regarding government regulations to which we are subject, see “Item 4.B Business Overview — Government Regulation” for additional discussion of applicable regulations affecting our business.

**If we are deemed to be non-compliant with applicable data protection laws, or are even thought to be so, our operating results could be materially affected.**

We collect, use, and maintain certain data about our customers, partners, employees and consumers. Such collection and maintenance of information is subject to data protection laws and regulations. A failure to comply with applicable regulations could result in class actions, governmental investigations and orders, and criminal and civil liabilities, which could materially affect our operating results. Moreover, concerns about our collection, use, sharing or handling of such data or other privacy related matters, even if unfounded, could harm our reputation and operating results.

Although we strive to comply with the applicable laws and regulations and use our best efforts to comply with the evolving global standards regarding privacy and inform our customers of our business practices prior to any installations of our product and use of our services, it is possible that these laws may be interpreted and applied in a manner that is inconsistent with our data collection, use and preservation practices or that it may be argued that our practices do not comply with other countries' privacy and data protection laws and regulations. In addition to the possibility of fines, such a situation could result in the issuance of an order requiring that we change our data collection or retention practices, which in turn could have a material adverse effect on our business. See “Item 4.B Business Overview — Government Regulation” for additional discussion of applicable regulations.

**If one or more states or countries determine that we are required to collect sales, use, or other taxes on the services that we sell, this may result in liability to pay sales, use, and other taxes (plus interest and penalties) on prior sales and a decrease in our future sales revenue.**

In general, the digital advertising business has not traditionally paid sales tax. However, a successful assertion by one or more cities, states or countries that digital advertising services should be subject to such taxes or that we are not providing digital advertising services, but other services and should collect sales, use, or other taxes on the sale of our services, or that we have failed to do so where required in the past, could result in a decrease in future sales and/or substantial tax liabilities for past sales. Each state and country has different rules and regulations governing sales, use, and other taxes, and these rules and regulations are subject to varying interpretations that may change over time.

Some states are also pursuing legislative expansion of the scope of goods and services that are subject to sales and similar taxes as well as the circumstances in which a vendor of goods and services must collect such taxes. Furthermore, legislative proposals have been introduced in Congress that would provide states with additional authority to impose such taxes. Accordingly, it is possible that either federal or state legislative changes may require us to collect additional sales and similar taxes from our clients in the future which could impact our future sales, and therefore result in a material adverse effect on our revenue.

**Under current Israeli, U.S., U.K., French and German law, we may not be able to enforce non-competition and non-solicitation covenants and, therefore, we may be unable to prevent our competitors from benefiting from the expertise of some of our former employees and/or vendors, whether current or former.**

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

#### ***Risks Related to our Intellectual Property***

**Our proprietary information and intellectual property may not be adequately protected and thus our technology may be unlawfully copied by or disclosed to other third parties.**

We regard the protection of our proprietary information and technology and other intellectual property as critical to our success. We strive to protect our intellectual property rights by relying on contractual restrictions, trade secret law and other common law rights, as well as federal and international intellectual property registrations and the laws on which these registrations are based. However, the technology we use and incorporate into our offerings may not be adequately protected by these means.

We generally enter into confidentiality and invention assignment agreements with our employees and contractors, and confidentiality agreements with parties with whom we conduct business, in order to limit access to, and the disclosure and use of, our proprietary information. However, we may not be successful in executing these agreements with every party who has access to our confidential information or contributes to the development of our intellectual property. In addition, those agreements that we do execute may be breached, and we may not have adequate remedies for any such breach. Further, these contractual arrangements and the other steps we have taken to protect our intellectual property may not prevent the misappropriation of our intellectual property and/or trade secrets, or deter independent development of similar intellectual property by others.

In addition, there is no assurance that any existing or future patents or trademarks will afford adequate protection against competitors and similar technologies. Our intellectual property rights may be challenged, invalidated, or circumvented by others or invalidated through administrative process or litigation. Effective trademark and patent protections are expensive to develop and maintain, as are the costs of defending our rights. Further, we cannot assure you that competitors will not infringe our patents or trademarks, or that we will have adequate resources to enforce our rights.

**Third party claims of infringement or other claims against us could require us to redesign our products, seek licenses, or engage in costly intellectual property litigation, which could adversely affect our financial position and our ability to execute our business strategy.**

Given the competitive and technology-driven nature of the digital advertising industry, companies within our industry often design and use similar products and services, which may lead to claims of intellectual property infringement and potentially litigation. We have been, and in the future may be, the subject of claims that our solutions and underlying technology infringe or violate the intellectual property rights of others. Regardless of whether such claims have any merit, these claims are time-consuming and costly to evaluate and defend, and the outcome of any litigation is inherently uncertain. Our business may suffer if we are unable to resolve infringement or misappropriation claims without major financial expenditures or adverse consequences.

If it appears necessary or desirable, we may seek to obtain licenses to use intellectual property rights that we are allegedly infringing, may infringe or desire to use. Although holders of these types of intellectual property rights often offer these licenses, we cannot assure you that licenses will be offered or that the terms of any offered licenses will be acceptable to us. Our failure to obtain a license for key intellectual property rights such as these from a third party for technology or content, sound, or graphic used by us could cause us to incur substantial liabilities and to suspend the development and sale of our products. Alternatively, we could be required to expend significant resources to re-design our products or develop non-infringing technology. If we are unable to re-design our products or develop non-infringing technology, our revenues could decrease and we may not be able to execute our business strategy.



On December 22, 2015, Adtile Technologies Inc. filed a lawsuit against Perion and Undertone alleging, *inter alia*, that Undertone's UMotion advertising format, "hand phone" image, and use of the full tilt library infringes on its intellectual property. On February 3, 2016, Adtile Technologies Inc. filed a motion for preliminary injunction to, *inter alia*, prevent Undertone from creating or selling motion-activated advertisements. On June 23, 2016, the court denied Adtile's motion for a preliminary injunction. On June 24, 2016, the court (i) granted Perion's motion to dismiss and (ii) granted Undertone's motion to stay the action and compel arbitration. As of the date of this report, Adtile had not commenced an arbitration proceeding and the court dismissed the case for administrative reasons. We believe that we have strong defenses against this lawsuit and we intend to defend against it vigorously if the case is ever resubmitted. However, if we do not prevail in this case, we may incur monetary damages and/or be prohibited from using certain intellectual property.

We may also become involved in litigation in connection with the brand name rights associated with our Company name or the names of our products. We do not know whether others will assert that our Company name or any of our brands name infringe(s) their trademark rights. In addition, names we choose for our products may be alleged to infringe names held by others. If we have to change the name of our Company or products, we may experience a loss in goodwill associated with our brand name, customer confusion and a loss of sales. Any lawsuit, regardless of its merit, would likely be time-consuming, expensive to resolve, and require additional management time and attention.

**We may become subject to claims for remuneration or royalties for assigned service invention rights by our employees, which could result in litigation and adversely affect our business.**

A significant portion of our intellectual property has been developed by our employees in the course of their employment for us. Under the Israeli Patent Law, 5727-1967, or the Patent Law, inventions conceived by an employee in the course and as a result of or arising from his or her employment with a company are regarded as "service inventions," which belong to the employer, absent a specific agreement between the employee and employer giving the employee service invention rights. The Patent Law also provides that if there is no such agreement between an employer and an employee, the Israeli Compensation and Royalties Committee, or the Committee, a body constituted under the Patent Law, shall determine whether the employee is entitled to remuneration for his inventions. Recent case law clarifies that the right to receive consideration for "service inventions" can be waived by the employee and that in certain circumstances, such waiver does not necessarily have to be explicit. The Committee will examine, on a case-by-case basis, the general contractual framework between the parties, using interpretation rules of the general Israeli contract laws. Further, the Committee has not yet determined one specific formula for calculating this remuneration (but rather uses the criteria specified in the Patent Law). Although we generally enter into assignment-of-invention agreements with our employees pursuant to which such individuals assign to us all rights to any inventions created in the scope of their employment or engagement with us, we may face claims demanding remuneration in consideration for assigned inventions. As a consequence of such claims, we could be required to pay additional remuneration or royalties to our current and/or former employees, or be forced to litigate such claims, which could negatively affect our business.

**We use certain "open source" software tools that may be subject to intellectual property infringement claims or that may subject our derivative works or products to unintended consequences, possibly impairing our product development plans, interfering with our ability to support our clients or requiring us to allow access to the source code of our products or necessitating that we pay licensing fees.**

Certain of our products contain open source code and we may use more open source code in the future. In addition, certain third party software that we embed in our products contains open source code. Open source code is code that is covered by a license agreement that permits the user to liberally use, copy, modify and distribute the software without cost, provided that users and modifiers abide by certain licensing requirements. The original developers of the open source code provide no warranties on such code.

As a result of the use of open source software, we could be subject to suits by parties claiming ownership of what they believe to be their proprietary code or we may incur expenses in defending claims alleging non-compliance with certain open source code license terms. In addition, third party licensors do not provide intellectual property protection with respect to the open source components of their products, and we may be unable to be indemnified by such third-party licensors in the event that we or our customers are held liable in respect of the open source software contained in such third party software. If we are not successful in defending against any such claims that may arise, we may be subject to injunctions and/or monetary damages or be required to remove the open source code from our products. Such events could disrupt our operations and the sales of our products, which would negatively impact our revenues and cash flow.

Moreover, under certain conditions, the use of open source code to create derivative code may obligate us to make the resulting derivative code available to others at no cost. The circumstances under which our use of open source code would compel us to offer derivative code at no cost are subject to varying interpretations. If we are required to publicly disclose the source code for such derivative products or to license our derivative products that use an open source license, our previously proprietary software products may be available to others without charge. If this happens, our customers and our competitors may have access to our products without cost to them which could harm our business. Certain open source licenses require as a condition to use, modification and/or distribution of such open source that proprietary software incorporated into, derived from or distributed with such open source be disclosed or distributed in source code form, be licensed for the purpose of making derivative works, or be redistributable at no charge. The foregoing may under certain conditions be interpreted to apply to our software, depending upon the use of the open source and the interpretation of the applicable open source licenses.

We monitor our use of open source code to avoid subjecting our products to conditions we do not intend. The use of open source code, however, may ultimately subject some of our products to unintended conditions so that we are required to take remedial action that may divert resources away from our development efforts.

#### ***Risks Related to the Geographical Location of our Operations***

**Our business is significantly reliant on the North American market. Any material adverse change in that market could have a material adverse effect on our results of operations.**

Our revenues have been concentrated within the North American market, accounting for approximately 78% of our revenues for 2017. A significant reduction in the revenues generated in such market, whether as a result of a recession that causes a reduction in advertising expenditures generally or otherwise, which causes a decrease in our North American revenues, could have a material adverse effect on our results of operations.

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

We operate in a global market and are subject to tax in Israel and other jurisdictions. Our tax expenses may be affected by changes in tax laws, international tax treaties, international tax guidelines (such as the Base Erosion and Profit Shifting project of the OECD (“BEPS”)).

More specifically, the U.S. Tax Cuts and Jobs Act of 2017 (“TCJA”) was approved by Congress on December 20, 2017, and signed into law by President Donald J. Trump on December 22, 2017. This legislation makes significant changes to the U.S. Internal Revenue Code of 1986, as amended (the “Code”). Such changes include a reduction in the corporate tax rate, changes in international taxation, and limitations on certain corporate deductions and credits, among other changes.

Certain of these changes could have a negative impact on our results of operations and business. The impact of these changes is uncertain, and may not become evident for some period of time. The uncertainty surrounding the effect of the reforms on our financial results and business could also weaken confidence among investors in our financial condition. This could, in turn, have a materially adverse effect on the price of our ordinary shares. Prospective investors are urged to consult their tax advisors regarding the effect of these changes to the U.S. federal tax laws on an investment in our shares.

**Our international operations involve special risks that could increase our expenses, adversely affect our operating results and require increased time and attention of our management.**

A large portion of our operations are performed from outside the United States. In addition, we derive and expect to continue to derive a portion of our revenues from users outside the United States. Our international operations and sales are subject to a number of inherent risks, including risks with respect to:

- potential loss of proprietary information due to piracy, misappropriation or laws that may be less protective of our intellectual property rights than those of the United States;
- costs and delays associated with translating and supporting our products in multiple languages;
- foreign exchange rate fluctuations and economic instability, such as higher interest rates and inflation, which could make our products more expensive in those countries;

- costs of compliance with a variety of laws and regulations;
- restrictive governmental actions such as trade restrictions and potential trade wars;
- limitations on the transfer and repatriation of funds and foreign currency exchange restrictions;
- compliance with different consumer and data protection laws and restrictions on pricing or discounts;
- lower levels of adoption or use of the Internet and other technologies vital to our business and the lack of appropriate infrastructure to support widespread Internet usage;
- lower levels of consumer spending on a per capita basis and fewer opportunities for growth in certain foreign market segments compared to the United States;
- lower levels of credit card usage and increased payment risk;
- changes in domestic and international tax regulations; and
- geopolitical events, including war and terrorism.

**Political, economic and military instability in the Middle East may impede our ability to operate and harm our financial results.**

Our principal executive offices are located in Israel. Accordingly, political, economic and military conditions in the Middle East may affect our business directly. Since the establishment of the State of Israel in 1948, a number of armed conflicts have occurred between Israel and its Arab neighbors, Hamas (an Islamist militia and political group in the Gaza Strip) and Hezbollah (an Islamist militia and political group in Lebanon). Recent political uprisings, social unrest and violence in various countries in the Middle East and North Africa, including Israel's neighbors Egypt and Syria, are affecting the political stability of those countries. This instability may lead to deterioration of the political relationships that exist between Israel and these countries and have raised concerns regarding security in the region and the potential for armed conflict. In addition, Iran has threatened to attack Israel and is believed to be developing nuclear weapons. Iran is also believed to have a strong influence among the Syrian government, Hamas and Hezbollah. These situations may potentially escalate in the future to more violent events which may affect Israel and us. These situations, including conflicts which involved missile strikes against civilian targets in various parts of Israel, such as the Gaza conflict in the summer of 2014, have in the past negatively affected business conditions in Israel. Any hostilities involving Israel could have a material adverse effect on our business, operating results and financial condition. Although such hostilities did not in the past have a material adverse impact on our business, we cannot guarantee that hostilities will not be renewed and have such an effect in the future. Ongoing and revived hostilities and the attempts to resolve the conflict between Israel and its Arab neighbors often results in political instability that affects the Israeli capital markets and can cause volatility in interest rates, exchange rates and stock market quotes. The political and security situation in Israel may result in parties with whom we have contracts claiming that they are not obligated to perform their commitments under those agreements pursuant to force majeure provisions. These or other Israeli political or economic factors could harm our operations and product development and cause our sales to decrease. Since our headquarters are located in Israel, we could experience serious disruptions if acts associated with any and all of the above mentioned conflicts result in any serious damage to our facilities. Our business interruption insurance may not adequately compensate us for losses that may occur and any losses or damages incurred by us could have a material adverse effect on our business. Any future armed conflicts in the region would likely negatively affect business conditions, harm our results of operations and make it more difficult for us to raise capital.

Several countries, principally in the Middle East, restrict doing business with Israel and Israeli companies, and additional countries may impose restrictions on doing business with Israel and Israeli companies whether as a result of hostilities in the region or otherwise. In addition, there have been increased efforts by activists to cause companies and consumers to boycott Israeli companies based on Israeli government policies. Such actions, particularly if they become more widespread, may adversely impact our business and results of operations.

**Investors and our shareholders generally may have difficulties enforcing a U.S. judgment against us, our executive officers or our directors or asserting U.S. securities laws claims in Israel.**

We are incorporated under the laws of the State of Israel. Service of process on us, our Israeli subsidiaries, our directors and officers and the Israeli experts, if any, named in this annual report, substantially all of whom reside outside of the United States, may be difficult to obtain within the United States.

Furthermore, because a significant portion of our assets and investments, and substantially all of our directors, officers and Israeli external experts are located outside the United States, any judgment obtained in the United States against us or any of them may be difficult to collect within the United States.

We have been informed by our legal counsel in Israel that it may also be difficult to assert U.S. securities laws claims in original actions instituted in Israel. Israeli courts may refuse to hear a claim based on an alleged violation of U.S. securities laws reasoning that Israel is not the most appropriate forum to bring such a claim. In addition, even if an Israeli court agrees to hear a claim, it may determine that Israeli law and not U.S. law is applicable to the claim. There is little binding case law in Israel addressing these matters. If U.S. law is found to be applicable, the content of applicable U.S. law must be proved as a fact, which can be a time-consuming and costly process. Certain matters of procedure will also be governed by Israeli law.

Subject to specified time limitations and legal procedures, under the rules of private international law currently prevailing in Israel, Israeli courts may enforce a U.S. judgment in a civil matter, including a judgment based upon the civil liability provisions of the U.S. securities laws, as well as a monetary or compensatory judgment in a non-civil matter, provided that the following key conditions are met:

- subject to limited exceptions, the judgment is final and non-appealable;
- the judgment was given by a court competent under the laws of the state of the court and is otherwise enforceable in such state;
- the judgment was rendered by a court competent under the rules of private international law applicable in Israel;
- the laws of the state in which the judgment was given provide for the enforcement of judgments of Israeli courts;
- adequate service of process has been effected and the defendant has had a reasonable opportunity to present his arguments and evidence;
- the judgment and its enforcement are not contrary to the law, public policy, security or sovereignty of the State of Israel;
- the judgment was not obtained by fraud and does not conflict with any other valid judgment in the same matter between the same parties; and
- an action between the same parties in the same matter was not pending in any Israeli court at the time the lawsuit was instituted in the U.S. court.

**The tax benefits available to us for activities in Israel require us to meet several conditions and may be terminated or reduced in the future, which would increase our costs and taxes.**

We have benefited and currently benefit from a variety of Israeli government programs and tax benefits with regards to our operations in Israel, that generally carry conditions that we must meet in order to be eligible to obtain any benefit. Our tax expenses and the resulting effective tax rate reflected in our financial statements may increase over time as a result of changes in corporate income tax rates, other changes in the tax laws of the countries in which we operate, non-deductible expenses, loss and timing differences, or changes in the mix of countries, where we generate profit.

If we fail to meet the conditions upon which certain favorable tax treatment is based, we would not be able to claim future tax benefits and could be required to refund tax benefits already received. Any of the following could have a material effect on our overall effective tax rate:

- we may be unable to meet the requirements for continuing to qualify for some programs;
- these programs and tax benefits may be unavailable at their current levels; or
- we may be required to refund previously recognized tax benefits if we are found to be in violation of the stipulated conditions.

Additional details are provided in “Item 5 – Operating and Financial Review and Products” under the caption “Taxes on income,” in “Item 10 – Additional Information” under the caption “Israeli taxation, foreign exchange regulation and investment programs” and in Note 14 to our Financial Statements.

**If we are characterized as a passive foreign investment company, our U.S. shareholders may suffer adverse tax consequences.**

Non-U.S. corporations generally may be characterized as a passive foreign investment company (“PFIC”) for any taxable year, if, after applying certain look through rules, either (1) 75% or more of such company’s gross income is passive income, or (2) at least 50% of the average percentage, generally determined by fair value of all such company’s assets (determined on a quarterly basis) are held for the production of, or produce, passive income. For this purpose, passive income includes, for example, dividends, interest, certain rents and royalties, and gain from the disposition of property that produces such income.

If we are characterized as a PFIC for any taxable year, our U.S. shareholders may suffer adverse tax consequences, including having gains realized on the sale of our ordinary shares taxed at ordinary income rates, rather than capital gain rates. Similar rules apply to distributions that are “excess distributions.” In addition, both gains upon disposition and amounts received as excess distributions could be subject to an additional interest charge. A determination that we are a PFIC could also have an adverse effect on the price and marketability of our ordinary shares.

We do not believe that we were a PFIC for our prior taxable year and we intend to conduct our business so that we should not be treated as a PFIC for our current taxable year or any future taxable year. However, because the PFIC determination is highly fact intensive and made at the end of each taxable year, it is possible that we may be a PFIC for the current or any future taxable year or that the IRS may challenge our determination concerning our PFIC status. Whether we are a PFIC is based upon certain factual matters such as the valuation of our assets. In calculating the value of our assets, we value our total assets, in part, based on our total market capitalization. We believe this valuation approach is reasonable. However, if the IRS successfully challenged our valuation of our assets, or if the market price of our ordinary shares were to fluctuate, it could result in our classification as a PFIC. Because the market price of our ordinary shares is likely to fluctuate and because that market price may affect the determination of whether we will be considered a PFIC, we cannot give any assurances that we will not be considered a PFIC for any future taxable year.

See a discussion of our PFIC status in Item 10.E under “U.S. Federal Income Tax Considerations – Passive Foreign Investment Company Considerations.”

**ITEM 4. INFORMATION ON THE COMPANY**

**A. HISTORY AND DEVELOPMENT OF THE COMPANY**

**Our History**

We were incorporated in the State of Israel in November 1999 under the name Verticon Ltd., changed our name to IncrediMail Ltd. in November 2000 and in November 2011 changed our name to Perion Network Ltd. We operate under the laws of the State of Israel. Our headquarters are located at 26 HaRokmim Street, Holon 5885849, Israel. Our phone number is 972-73-3981000. Our website address is [www.perion.com](http://www.perion.com). The information on our website does not constitute a part of this annual report. Our agent for service in the United States is Intercept Interactive Inc. d/b/a Undertone, which is located at 340 Madison Avenue, 8th Floor, New York, NY 10173-0899.

We completed the initial public offering of our ordinary shares in the United States on February 3, 2006. Since November 20, 2007, our ordinary shares are also traded on the TASE.

Since 2011, we completed several acquisitions, including the acquisition of ClientConnect Ltd. in 2014 and the acquisition of Interactive Holding Corp. in 2015, which we refer to, together with its subsidiaries, as “Undertone”.

**Principal Capital Expenditures**

In 2015, capital expenditures consisted of \$2.0 million mainly from investments in computer hardware and software. In 2016 and 2017, capital expenditures consisted of \$1.5 million and \$1.6 million, respectively, mainly from investments in computer hardware and software.

To date, we have financed our general capital expenditures with cash generated from operations and debt and equity financings. To the extent we acquire new products and businesses, these acquisitions may be financed by any of, or a combination of, cash generated from operations, or issuances of equity or debt securities.

## **B. BUSINESS OVERVIEW**

### **General**

Perion is a global technology company that delivers advertising solutions to brands and publishers. Perion is committed to providing outstanding execution, from high-impact ad formats to branded search and a unified social and mobile programmatic platform.

### **Overview**

Our advertising solution specializes in providing digital advertising solutions for some of the world's leading brands, agencies and publishers. We provide our customers high-quality, cross-screen digital advertising across desktop, mobile (web and app) and social channels. Our ad formats, coupled with award-winning creative, are designed to attract and engage audiences, helping brands connect to consumers and drive business results. We leverage our proprietary technology platform and programmatic capabilities to give our customers the ability to serve the right creative to the right audience at the right time. Our customers receive dedicated support throughout the full campaign cycle, including planning, creative services, client solutions, campaign management, performance and insights. We have long-standing and meaningful relationships with major brands and advertising agencies across the United States and Europe.

Our proprietary social marketing platform offers a dashboard for marketers that makes media buying more efficient on Facebook, Instagram, Twitter and other social networks and platforms.

With our social marketing platform, customers can acquire users from the industry's top-performing social traffic sources including Facebook, Twitter, Snapchat and Instagram, and can access their performance data and revenue information in one place, enabling them to make better, quicker and more intelligent decisions and helping mobile application advertisers improve user acquisition, maximize their return on investment and ultimately meet their business goals. The platform allows advertisers to control their marketing expenditures, planning and strategy in-house and utilize the technical tool to create better operational marketing efficiencies. We offer our customers the opportunity to easily and efficiently increase their expenditures, reduce churn and improve retention through engagement campaigns. Customers also receive ongoing analysis and optimization of their campaigns for increased return on investment and scaling of their key performance indicator goals.

While we focus on the advertising market, we continue to generate significant revenues and profits by providing search-based monetization solutions for our publishers with enhanced analytics capabilities to track and monitor their business performance. From the end user perspective, we enable users to configure their browser settings through the search setting dialogue so they are powered by our search-engine partners. Publishers can choose to implement our solution into or with their products and services (mobile and desktop) and to monetize their users' search assets.

Our search related products enable end users to, among other things, replace their search assets with ours, where users may conduct searches or follow links to advertisements that advertisers may display. They also allow publishers the ability to set up syndicated searches on their individual websites and to monetize their users' other search assets. In addition, we are still generating a small portion of our revenues through our toolbar platform, which allows publishers to create, implement and distribute web browser toolbars, as well as through our consumer products; Smilebox, a photo sharing and social expression product, and IncrediMail, a unified messaging application that enables consumers to manage multiple email accounts in one place with an easy-to-use interface and extensive personalization features. Currently these products account for only 5% of our revenues and are profitable. Our consumer products are currently available in seven languages in addition to English.

### **Markets**

In general, we work with advertising agencies, advertisers, publishers and other inventory suppliers, and search partners. While we work with some advertisers directly, our primary advertising customers are advertising agencies, who are paid by brand advertisers to develop their media plans. We work with these advertisers and agencies to plan, design, deliver, manage, and measure their digital advertising campaigns.

We generally do not enter into long term contracts with our advertising customers. We charge customers variable rates based on ad formats, campaign complexity, and creative requirements. We then engage in a consultative sales process to determine the best offering for that customer. Our customers generally purchase our products based on impressions served for each ad type, either using traditional insertion orders, or alternatively, programmatically, with options for managed service or self-service. Programmatic customers benefit from increased automation and efficiency of their campaigns. All our advertising customers receive support throughout the campaign cycle, with service and support teams including planning, client solutions, campaign management, performance, and insights.

In the past, we generated the majority of our revenues from services agreements with our search partners. Search-generated revenues accounted for 78% in 2015, however as we shifted our focus to advertising outside of search, search generated revenues accounted for 50% of our revenues in 2016. In 2017, search generated revenues accounted for 46% of our revenues. Through our search technology, including syndication, we offer end users the ability to search the Internet via easily embedded search boxes powered by premium search companies, including Microsoft, Google and Yahoo, and depending on the search partner powering the search and the location in which the search was initiated, we receive a portion of the revenues generated by these companies through the search process.

We are currently one of the largest redistributors of search monetization in the United States and we generate substantially all our search revenues through our relationship with Microsoft Bing. The fees payable by Microsoft under the Renewed Microsoft Agreement (as the case was with the Microsoft Agreement), are payable based on a share of the revenue generated as a result of searches conducted by end users who utilize the search engine that appears on our product, the publisher's product, search assets and websites.

## **Strategy**

Our goal through our advertising offering is to be the leader in high-quality advertising solutions that cut through the digital clutter and deliver messages that stand out to consumers, through innovative and engaging ad units. To address all of our customers' digital advertising needs with a comprehensive solution, we offer "high impact" ad units as well as standard and non-standard ad formats in desktop, mobile (web and app), and social channels. We define "high impact" as advertising that captures the attention of consumers, including video and non-standard rich media features and functionalities.

The key components to our advertising solutions are:

### Creative Ad Units

We offer our clients creative ad units that capture consumer attention, as well as functionality that drives consumer engagement. We have an in-house full-service creative team that works with clients to design, build and execute custom ad campaigns.

Our formats, each with a suite of interactive features, can be deployed across desktop, mobile and tablet ("cross-screen") and through web, app and social channels, depending on the specific needs of the customer. Most of these are our proprietary formats. We use HTML5 and responsive design to detect device type and screen size in order to deliver a seamless advertising experience across screens. Other proprietary formats leverage mobile-native functionality such as tap, swipe, shake and tilt in order to deliver an engaging consumer experience.

### Quality Media

In order to be effective, advertisements must be delivered in media environments that reach the right audiences. We hand-pick a broad portfolio of premium media properties that are rigorously vetted using quantitative and qualitative criteria. Qualified publishers are then put through a certification process to ensure proper delivery of our formats. Approved publishers are placed on Undertone's "Green List" and are subsequently continuously monitored for inappropriate content and suspicious traffic.

### Proprietary Technology Platform

Our proprietary technology platform supports our mission of delivering high-quality digital experiences for our clients. Key features of our platform include:

- HTML5-based ad creation platform and production tools that allow for the rapid creation of high impact creative ads and the development of new ad formats.
- Programmatically enabled buying and selling, allowing our clients to increase efficiency and campaign flexibility.
- Brand safety and quality filters to help ensure our clients' messages are placed in the safe, appropriate and on-brand environments.
- The Undertone Data Management System (UDMS), which enables us to capture, process and analyze data associated with ad campaigns in order to deliver better results to our clients.
- An ad delivery and decision-making engine that enables us to deliver sophisticated pacing and performance monitoring as we execute campaigns.

## Service and Support

We provide our clients with service and support before, during and after the campaign cycle. Our sales, client solutions, and planning teams utilize a consultative, solutions-driven approach in order to develop the appropriate campaign strategy for each individual client. Our campaign management and performance teams oversee all aspects of client campaigns in order to ensure that they meet the clients' objectives. Finally, our research and insights team provides clients with campaign results, key performance metrics and critical analysis in order to provide useful feedback to clients.

## Innovation

To maintain our edge and innovative offering, we must continue to develop new solutions and services for our clients. To accomplish this, we have an in-house research and development team. This team researches, prototypes and tests emerging technology in order to determine how best to reach and influence consumers. The team also conducts research studies of consumer interactions with ad formats, features and functionalities to determine preferences and usage behavior.

Our innovation team focuses on three types of innovations:

- Near-term innovations, which may be brought to market in less than a year and typically represent advances to existing capabilities;
- Mid-term innovations, which may be brought to market in one to two years and typically represent new concepts; and
- Long-term innovations, which have a 2+ year time horizon that we believe may have a material impact on our digital advertising capabilities and/or the digital advertising industry generally.

With the solutions we provide to our publisher partners, in the turbulent marketplace we currently act in, we differentiate ourselves by providing solutions with three major advantages:

- provide a user-friendly monetization solution, which enables them to engage users, by providing quality software, while creating monetization through, user friendly, non-intrusive and transparent means;
- deliver superior analytics and optimization tools enabling the software developer to extend its reach and increase monetization with a positive return on investment; and
- offer creative and flexible monetization models with scalable risk and reward, suited to their business.

Publishers face increasing challenges monetizing their offerings. This is partly because most consumers find that the free version of a given software product or content adequately meets their needs. Accordingly, most app developers or web content publishers do not earn sufficient revenue to sustain a standalone business.

We provide a broad spectrum of solutions for our clients' monetization challenges. We offer clients tailored and engaging advertising solutions for web content publishers, thereby further increasing monetization opportunities.

Through our search agreements with the world's leading search providers we enable our clients to monetize their search assets. Publishers and developers may incorporate a search box, generic or tailored to the publisher's offering that is powered by our search providers, who in turn pay us fees for searches emanating from such search boxes. Depending on the payment model adopted, we pay our clients a fee on a pay-per-search or revenue sharing basis for search activity emanating from the incorporated search boxes.

## **Products under Development**

Our research and development activities are primarily conducted internally, focusing on the development of new high impact ad formats and platform-based solutions that will offer developers (i) standout brand experience (ii) effective distribution tools, (iii) increased monetization capabilities through content, and (iv) enhanced optimization via powerful, reliable, and easy-to-use analytics. Additionally, we focus our research and development efforts on developing new products and improving existing products through software updates and upgraded features. Our Research & Development department is divided into groups based on scientific disciplines and types of applications and products.



## Breakdown of Revenues

Our search monetization solutions, advertising and other, are distributed and sold throughout the world (mainly in North America and Europe). The following table shows the revenues, presented in our statement of operations, generated by territory in the years ended December 31, 2015, 2016 and 2017.

	2015		2016		2017	
	Search and other Revenues	Advertising Revenues	Search and other Revenues	Advertising Revenues	Search and other Revenues	Advertising Revenues
North America	79%	75%	75%	89%	70%	86%
Europe	18%	22%	20%	9%	24%	11%
Other	3%	3%	5%	2%	6%	3%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

## Intellectual Property

Although we have a number of patents, copyrights, trademarks and trade secrets and confidentiality and invention assignment agreements to protect our intellectual property rights, we believe that our competitive advantage depends primarily on our marketing, business development, applications, know-how and ongoing research and development efforts. Accordingly, we believe that the expiration of any of our patents or patent licenses, or the failure of any of our patent applications to result in issued patents, would not be material to our business or financial position.

Part of the components of our software products were developed solely by us. We have licensed certain components of our software from third parties. We believe that the components we have licensed are not material to the overall performance of our software and may be replaced without significant difficulty.

We enter into licensing arrangements with third parties for the use of software components, graphic, sound and multimedia content integrated into our products.

All employees and consultants are required to execute confidentiality covenants in connection with their employment and consulting relationships with us. These agreements (excluding those with our German and U.K. employees) also contain assignment and waiver provisions relating to the employee's or consultant's rights in respect of inventions.

## Competition

The markets in which we are active are subject to intense competition.

We compete with many other companies offering solutions for online publishers and developers, including search services and other software in conjunction with changing a user's default search settings.

The advertising technology industry is highly competitive. There are a large number of digital media companies and advertising technology companies that offer services similar to those of our advertising solution and that compete for finite advertiser/agency budgets and publisher inventory. There are a large number of niche companies that are competitive with our advertising solution because they provide a subset of the services that we provide (e.g., mobile in-app ad networks). Some of these companies are larger and have more financial resources than we have, including, Oath, Google, and Facebook. New entrants and companies that do not currently compete with our advertising solution such as Amazon and Samsung may compete in the future given the relatively low barriers to entry in the industry.

As a major part of our revenues stem from our offering of search properties, we compete with search engine providers themselves such as Google, Microsoft, Yahoo, Ask and others. We also compete with many other companies offering consumer software, albeit totally different software, utilizing the same strategy, to offer their search properties, such as Interactive Corporation, Oath, InfoSpace and others.

Many of our current and potential competitors may have significantly greater financial, research and development, back-end analytical systems, manufacturing, and sales and marketing resources than we have. These competitors could potentially use their greater financial resources to acquire other companies to gain even further enhanced name recognition and market share, as well as to develop new technologies, enhanced systems and analytical capabilities, products or features that could effectively compete with our existing solutions, products and search services. Demand for our solutions, products and search services could be diminished by solutions, products, services and technologies offered by competitors, whether or not their solutions, products, services and technologies are equivalent or superior.

Finally, our ability to attract developers is largely dependent on our ability to pay higher rates to our publishers and developers, our success in creating strong commercial relationships with developers that have successful software, websites or distribution channels, and our ability to differentiate our distribution, monetization, and optimization tools from those of our competitors.

## **Government Regulation**

We are subject to a number of U.S. federal and state and foreign laws and regulations that affect companies conducting business on the Internet. The manner in which existing laws and regulations will be applied to the Internet in general, and how they will relate to our business in particular is unclear. Accordingly, we cannot be certain how existing laws will be interpreted or how they will evolve in areas such as user privacy, data protection, content, use of “cookies,” access changes, “net neutrality,” pricing, advertising, distribution of “spam,” intellectual property, distribution, protection of minors, consumer protection, taxation and online payment services.

For example, we are subject to U.S. federal and state laws regarding copyright infringement, privacy and protection of user data, many of which are subject to regulation by the Federal Trade Commission. These laws include the Digital Millennium Copyright Act, which aims to reduce the liability of online service providers for listing or linking to third-party websites that include materials that infringe copyrights or the rights of others, and other federal laws that restrict online service providers’ collection of user information on minors as well as distribution of materials deemed harmful to minors. Many U.S. states, such as California, are adopting statutes that require online service providers to report certain security breaches of personal data and to report to consumers when personal data will be disclosed to direct marketers. There are also a number of legislative proposals pending before the U.S. Congress and various state legislative bodies concerning data protection which could affect us. The interpretation of data protection laws, and their application to the Internet, is unclear and in a state of flux. There is a risk that these laws may be interpreted and applied in conflicting ways and in a manner that is not consistent with our current data protection practices.

Foreign data protection, privacy and other laws and regulations may affect our business, and such laws can be more restrictive than those in the United States. For example, in Israel, privacy laws require that any request for information for use or retention in a database be accompanied by a notice that indicates: whether a person is legally required to disclose such information or that such disclosure is subject to such person’s consent; the purpose for which the information is requested; and to whom the information is to be delivered. A breach of privacy under such laws is considered a civil wrong and subject to a significant fines and civil damages. Certain violations of the law are considered criminal offences punishable by imprisonment. In the European Union, similar data protection rules exist as well as privacy legislation restricting the use of cookies and similar technologies. Subject to some limited exceptions, the storing of information, or the gaining of access to information already stored, in the terminal equipment of a subscriber or user is only allowed on condition that the subscriber or user concerned has given his or her informed consent. Further, the new General Data Protection Regulation, which is expected to take effect in May 2018, will likely have an even wider territorial scope, broaden the definition of personal data to include data commonly collected from users in digital advertising such as location data and online identifiers, and more stringent user consent requirements. Further, it will include stringent operational requirements for companies that process personal data and will contain significant penalties for non-compliance. Also in other relevant subject matters such as cyber security, e-commerce, copyright and cookies new European initiatives have been announced by the European regulators. To further complicate matters in Europe, Member States have some flexibility when implementing European Directives which can lead to diverging national rules.

Because our services are accessible worldwide, certain foreign jurisdictions may claim that we are required to comply with their laws, including in jurisdictions where we have no local entity, employees or infrastructure.

These regulations result in significant compliance costs and could result in restricting the growth and profitability of our business.

## **C. ORGANIZATIONAL STRUCTURE**

ClientConnect Ltd., our wholly owned Israeli subsidiary, owns all of the outstanding shares of common stock of ClientConnect, Inc., a Delaware corporation, and all of the outstanding ordinary shares of ClientConnect B.V., a Netherlands company.

IncrediMail, Inc., our wholly-owned Delaware subsidiary, owns all of the outstanding shares of common stock of Smilebox Inc., a Washington corporation, all of the outstanding equity of Grow Mobile LLC., a Delaware corporation and all of the outstanding shares of common stock of IncrediTone Inc., our wholly-owned Delaware subsidiary. IncrediTone Inc. owns all of the outstanding shares of common stock of Interactive Holding Corp., a Delaware corporation, which was acquired, together with its subsidiaries, in November 2015.

Make Me Reach SAS, our wholly owned French subsidiary, was acquired in February 2015.

#### D. PROPERTY, PLANTS AND EQUIPMENT

Our headquarters are located in Holon, Israel. We lease approximately 36,030 square feet, excluding office space which we currently sublease. The lease expires in 2025, with an option to extend for two additional two-year periods, additionally, the lease agreement provides the Company (at its sole discretion, and by a 180-day prior written notice) with an option to terminate the lease in November 2019. Annual cost is approximately \$1.7 million.

We lease approximately 48,250 square feet in various locations in the United States, excluding office space we currently sublease. Our primary locations, and their principal terms, are as follows:

	Square feet (net)	Annual Rent for 2018 in US\$ in thousands (net)	Lease expires on (not including options)
New York, New York	40,310	\$ 2,280	2021
Chicago, Illinois	7,943	\$ 129	2018

In addition, we lease offices in various locations throughout Europe. Our primary locations, and their principal terms, are as follows:

	Square feet	Annual Rent for 2018 in US\$ in thousands	Lease expires on (not including options)
London, England	4,200	\$ 340	2021
Paris, France	6,200	\$ 72	2021

We own approximately 400 servers located in Israel, Europe and the United States. We also rent the services of approximately 600 additional servers located around the world, approximately 530 of which are rented mainly through Amazon Web Services and approximately 70 of which are rented through Rackspace Hosting located in the United States. Our servers include mainly web servers, application servers, data collection servers, data storage servers, data processing servers, mail servers and database servers.

#### ITEM 4.A UNRESOLVED STAFF COMMENTS

None.

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

*The following discussion of our financial condition and results of operations should be read in conjunction with our Financial Statements. In addition to historical financial information, the following discussion and analysis contains forward looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Exchange Act, including, without limitation, statements regarding the Company's expectations, beliefs, intentions, or future strategies that are signified by the words "expects," "anticipates," "intends," "believes," or similar language. These forward looking statements involve risks, uncertainties and assumptions. Our actual results and timing of selected events may differ materially from those anticipated in these forward looking statements as a result of many factors, including those discussed under "Item 3.D Risk Factors" and elsewhere in this annual report.*

#### A. OPERATING RESULTS

##### General

Perion is a global technology company that delivers high-quality advertising solutions to brands and publishers. Perion is committed to providing outstanding execution, from high-impact ad formats to branded search and a unified social and mobile programmatic platform.

Our headquarters and primary research and development facilities are located in Israel, we have our primary sales office in the United States and several other offices located in Europe.

Our search monetization product served 375 million average monthly queries in 2017, with 159 million being generated in United States. This level of activity makes us one of the larger search service providers in the U.S. market.

The search revenues declined significantly since its high in 2014, due to industry changes and as a result of our significantly reducing investment in acquiring new users and being more selective in choosing our publishers. We have become more selective in the companies we are willing to partner with, focusing on those that promote a more positive user experience, in line with our strategy, and those that can and do comply with the standards and policies introduced by the major search engine companies, Google and Microsoft Bing. In addition, in order to reduce our financial risk, we discontinued up-front, payment-per-install relationships, a method contingent on our ability to estimate the future revenues and that suffered from the lack of visibility inherent in an ever changing environment. In its stead, we instituted relationships based on sharing the revenue generated by the end users as the revenue is generated.

In parallel to the operation of our search solution, we have been focusing our growth efforts also in delivering high-quality advertising solutions to brands and publishers through Undertone.

Our advertising solution is an advertising technology offering focused on delivering standout brand experiences. We do so by developing digital advertising creatively designed to capture consumer attention and drive engagement, delivering these ads across a hand-picked portfolio of websites and mobile applications. With the advertising solution, we are able to deliver standard and proprietary display, mobile, video, and high impact ad formats, leveraging proprietary technology to ensure that ads are delivered to the right audience, at the right time, and across the right websites and mobile applications. Our ad creation platform allows us to bring sophisticated high impact formats to market quickly and to streamline production of client campaigns. By using HTML5 and a responsive design, we can deliver a seamless creative experience across screens. This combination of creative capabilities and proprietary high impact cross-screen and mobile-only advertising formats enables us to differentiate our offering in the market.

The following describes the nature of our principal items of income and expense:

### *Revenues*

We generate our revenues primarily from two major sources: (i) search-generated and other revenues; and (ii) advertising. The following table shows our revenues by category (in thousands of U.S. dollars):

	<b>Year Ended December 31,</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
Search and other	\$ 188,897	\$ 172,683	\$ 139,505
Advertising	32,053	140,111	134,481
<b>Total Revenues</b>	<b>\$ 220,950</b>	<b>\$ 312,794</b>	<b>\$ 273,986</b>

In 2016, revenues increased by 42% compared to 2015, primarily due to the acquisition of Undertone in the fourth quarter of 2015 offset by a decrease in our search revenues, primarily due to the chum of our legacy products. In 2017, revenues decreased by 12% compared to 2016, primarily due to the cleanup of our existing network, the chum of our legacy products and slower than expected brand spent in the first quarter of 2017 that relating to the uncertainty following the U.S. elections.

### *Cost of Revenues*

Cost of revenues consists primarily of salaries and related expenses, license fees and payments for content and server maintenance. In 2016 cost of revenues increased primarily due to the costs associated with Undertone's acquisition. The number of employees included in cost of revenues as of December 31, 2015, 2016 and 2017 were 20, 65 and 72, respectively.

### *Customer Acquisition Costs and Media Buy*

Our customer acquisition costs consist primarily of payments to publishers and developers who distribute our search properties together with their products, as well as the cost of distributing our own products. Customer acquisition costs are primarily based on revenue share agreements with our traffic sources. Media buy costs consist mainly of the costs of advertising inventory incurred to deliver ads. Customer acquisition and media buy costs were \$91.2 million or 41% of revenues, \$140.2 million or 45% of revenues and \$130.9 million or 48% of revenues in 2015, 2016 and 2017, respectively. In search, the increase as a percentage of revenues is primarily due to chum of our legacy products, while in advertising, the increase is mainly attributed to product mix and increased programmatic revenues with lower margins.

### *Research and Development Expenses*

Our research and development expenses consist primarily of salaries and other personnel-related expenses for employees primarily engaged in research and development activities, allocated facilities costs, subcontractors and consulting fees. Our research and development expenditures in 2017 decreased compared to the prior year, primarily as a result of a decrease in headcount which reflects our efforts in adapting and maintaining compatibility with the ever-changing business landscapes and automation of our platforms and operating systems.

The number of employees in research and development were 168, 132 and 106 as of December 31, 2015, 2016 and 2017, respectively.

***Selling and Marketing Expenses***

Our selling and marketing expenses consist primarily of salaries and other personnel-related expenses for employees primarily engaged in marketing activities, allocated facilities costs, as well as other outsourced marketing activity. Selling and marketing expenses were \$54.6 million or 17% of revenues in 2016, and \$52.7 million or 19% of revenues in 2017. The nominal decrease was primarily as a result of decrease in stock based compensation expenses mostly due to our share price and a decrease in headcount; the increase as a percentage of revenues is related to decrease in our revenues. The number of employees in sales and marketing was 262, 228 and 203 as of December 31, 2015, 2016 and 2017, respectively.

***General and Administrative Expenses (“G&A”)***

Our general and administrative expenses consist primarily of salaries and other personnel-related expenses for executive and administrative personnel, allocated facilities costs, professional fees and other general corporate expenses. G&A expenses are reflective of an independent public company, with all of its requisite costs, managing organic activity as well as being an active acquirer of other businesses. General and administrative expenses decreased by 24%, from \$28.8 million in 2016, to \$21.9 million in 2017. The decrease is primarily due to corporate expense reductions and lower stock based compensation expenses due to our share price. The number of G&A employees was 128, 110 and 83 as of December 31, 2015, 2016 and 2017, respectively.

***Restructuring Charges***

In 2015 and 2016, we incurred restructuring charges of \$1.1 and \$0.7 million, respectively, in connection with the restructuring plan of one of our consumer app development project, mainly to reduce workforce, close certain facilities, as well as other cost saving measures.

In 2017, there were no restructuring charges.

### ***Impairment, net of change in fair value of contingent consideration***

Goodwill and intangible assets has been recorded as a result of prior acquisitions. Goodwill represents the excess of the consideration over the net fair value of the assets of the businesses acquired, the fair value of intangible assets was based on the market participant approach to valuation, performed by a third-party valuation firm, using estimates and assumptions provided by management.

We perform tests for impairment of goodwill and intangible assets at the reporting unit level at least annually, or more frequently if events or changes in circumstances occur that would more likely than not reduce the fair value of a reporting unit below its carrying value. During 2017, we determined that certain indicators of potential impairment existed, which triggered an impairment analysis for these reporting units. These indicators included a decrease in the Company's share price and a failure to the targeted budget due to lower sales, and higher media buy as a percentage of revenues. We expect traffic acquisition costs (TAC) as a percent of revenues to increase in 2018 and beyond as industry budgets shift toward automated channels. This trend is driven by higher TAC expectations related to increased revenues in programmatic and the effect of header bidding and Chrome ad blocker.

Accordingly, we compared the fair value of the Undertone reporting unit to its carrying value and determined that the carrying amount of the reporting unit exceeded its fair value. Judgments and assumptions related to revenue, media buy, operating expenses, future short-term and long-term growth rates, weighted average cost of capital, interest, capital expenditures, cash flows, and market conditions are inherent in developing the discounted cash flow model. The assumptions used were based on expected future cash flows and an estimated terminal value using a terminal year growth rate of 3% based on the growth prospects for the reporting unit. The Company used an applicable discount rate of 15.7%, which reflected the associated specific risks for the reporting unit's future cash flows. As a result, the Company recorded an impairment charge of \$85.7 million in 2017, classified as "Impairment charges" in the consolidated statements of income.

### ***Depreciation and amortization***

Depreciation and amortization consist primarily of depreciation of our property and equipment and the amortization of our intangible assets as a result of our acquisitions. In 2016, this number increased significantly due to the amortization of the acquired intangible assets from the Undertone acquisition in November 2015. In 2017 depreciation and amortization decreased mostly due to impairment charge at June 30, 2017.

### ***Income Tax Expense***

A significant portion of our income is taxed in Israel and, as a result of the Undertone acquisition on November 30, 2015, in the United States. The standard corporate tax rate in Israel was 24% in 2017 and is 23% as of 2018. For our Israeli operations we have elected to implement a tax incentive program pursuant to a 2011 Israeli tax reform, referred to as a "Preferred Enterprise," according to which a reduced tax rate of 16.0% is applied to our preferred income in 2016 and 2017. With respect to U.S. tax, we expect to utilize cumulated losses we have from prior U.S. acquisitions. The federal statutory income tax rate in the United States was 35.0% in 2017. Subsidiaries in Europe are taxed according to the tax laws in their respective countries of residence.

On December 22, 2017, the TCJA was signed into law making significant changes to the Code. These changes include, but are not limited to:

- A corporate tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017;
- The transition of U.S international taxation from a worldwide tax system to a territorial system;
- A one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings as of December 31, 2017 ("Deemed Repatriation Transition Tax");
- Taxation of global intangible low-taxed income ("GILTI") earned by foreign subsidiaries beginning after December 31, 2017. The GILTI tax imposes a tax on foreign income in excess of a deemed return on tangible assets of foreign corporations; and
- Taxation of base erosion and anti-abuse ("BEAT") payments made by U.S. corporations to foreign related parties. The BEAT tax applies only to corporation with average gross domestic sales of \$500 million over three successive years.

We have calculated our best estimate of the impact of the TCJA in our year end income tax provision in accordance with our understanding of the TCJA and guidance available as of the date of this filing. As a result:

While we are able to make reasonable estimates of the impact of the reduction in corporate rate and the deemed repatriation transition tax, the final impact of the TCJA may differ from these estimates, due to, among other things, changes in our interpretations and assumptions, additional guidance that may be issued by the IRS, and actions we may take. We are continuing to gather additional information to determine the final impact of the TCJA.

Due to the aggregated accumulated deficits of our foreign subsidiaries, we should not be subject to any transition tax under this provision of the TCJA.

Because of the complexity of the new GILTI tax rules, we have not yet completed our analysis of the GILTI tax rules and are not yet able to reasonably estimate the effect of this provision of the TCJA or make an accounting policy election for the ASC 740 treatment of the GILTI tax.

We should not be subject to BEAT during 2018 due to the gross domestic sales threshold.

### **Critical Accounting Policies and Estimates**

The discussion and analysis of our financial condition and results of operation are based on our financial statements, which have been prepared in conformity with U.S. GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We evaluate these estimates on an on-going basis. We base our estimates on our historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying amount values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Under U.S. GAAP, when more than one accounting method or policy or its application is generally accepted, our management selects the accounting method or policy that it believes to be most appropriate in the specific circumstances. Our management considers some of these accounting policies to be critical.

A critical accounting policy is an accounting policy that management believes is both most important to the portrayal of our financial condition and results and requires management's most difficult subjective or complex judgment, often as a result of the need to make accounting estimates about the effect of matters that are inherently uncertain. While our significant accounting policies are discussed in Note 2 of the Financial Statements, we believe the following accounting policies to be critical:

#### ***Stock-Based Compensation***

We account for share-based payment awards made to employees and directors in accordance with ASC 718, "Compensation – Stock Compensation", which requires the measurement and recognition of compensation expense based on estimated fair values. Determining the fair value of stock-based awards at the grant date requires the exercise of judgment, as well as the determination of the amount of stock-based awards that are expected to be forfeited. We adopted ASU 2016-09 on January 1, 2017, and chose to continue to use the current method of estimating forfeitures each period rather than accounting for forfeitures as they occur. The adoption of the new standard had no material impact on our consolidated financial statements. If actual forfeitures differ from our estimates, stock-based compensation expense and our results of operations would be impacted. Expense is recognized for the value of the awards, which have graded vesting based on service conditions, using the straight-line method, over the requisite service period of each of the awards, net of estimated forfeitures. Estimated forfeitures are based on actual historical pre-vesting forfeitures. For performance-based stock units, expense is recognized for the value of such awards, if and when we conclude that it is probable that a performance condition will be achieved. We are required to reassess the probability of the vesting at each reporting period for awards with performance conditions and adjust compensation cost based on its probability assessment.

We account for changes in award terms as a modification in accordance with ASC 718. A modification to the terms of an award should be treated as an exchange of the original award for a new award with total compensation cost equal to the grant-date fair value of the original award plus the incremental value measured at the same date. Under ASC 718, the calculation of the incremental value is based on the excess of the fair value of the new (modified) award based on current circumstances over the fair value of the original award measured immediately before its terms are modified based on current circumstances.

In order to keep our competitive hiring position in the industry, following the Board approval in December 2017, we effected in 2018 an option repricing plan. Under the repricing plan, among others, options granted to all of our employees, with certain limited exceptions and other than our directors, were adjusted to have an exercise price per share equal to \$1.08, which was the weighted average price of our ordinary shares on Nasdaq in the last 90 days prior to the date of approval of the plan by our board of directors as well as have a new vesting schedule. The total incremental fair value of these repriced options amounted to \$1.5 million, and was determined based on the binomial pricing options model.

Total stock-based compensation expense recorded during 2017 was \$2.1 million, of which \$0.1 million was included in cost of revenues, \$0.2 million in research and development costs, \$0.7 million in selling and marketing expenses, and \$1.1 million in general and administrative expenses.

As of December 31, 2017, the maximum total compensation cost related to options and restricted stock units (“RSUs”), granted to employees and directors not yet recognized amounted to \$3.6 million. This cost is expected to be recognized over a weighted average period of 1.77 years.

We estimate the fair value of standard stock options granted using the Binomial method option-pricing model. The option-pricing model requires a number of assumptions, of which the most significant is expected stock price volatility. Expected volatility was calculated based upon actual historical stock price movements of our stock. The risk-free interest rate is based on the yield from U.S. Treasury zero-coupon bonds with an equivalent term. The fair value of RSUs is based on the market value of the underlying shares at the date of grant.

### ***Taxes on Income***

We are subject to income taxes primarily in Israel and the United States. Significant judgment is required in evaluating our uncertain tax positions and determining our provision for income taxes. Based on the guidance in ASC 740 “Income Taxes”, we use a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon settlement.

Although we believe we have adequately reserved for our uncertain tax positions, no assurance can be given that the final tax outcome of these matters will not be different. We adjust these reserves in light of changing facts and circumstances, such as the closing of a tax audit, the refinement of an estimate or changes in tax laws. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact the provision for income taxes in the period in which such determination is made. The provision for income taxes includes the impact of reserve provisions and changes to reserves that are considered appropriate. Interest is recorded within finance income, net.

Accounting for tax positions requires judgments, including estimating reserves for potential uncertainties. We also assess our ability to utilize tax attributes, including those in the form of carry forwards for which the benefits have already been reflected in the financial statements. We record valuation allowances for deferred tax assets that we believe are not more likely than not to be realized in future periods. While we believe the resulting tax balances as of December 31, 2017 are appropriately accounted for, the ultimate outcome of such matters could result in favorable or unfavorable adjustments to our consolidated financial statements and such adjustments could be material. See Note 14 of the Financial Statements for further information regarding income taxes. We have filed or are in the process of filing local and foreign tax returns that are subject to audit by the respective tax authorities. The amount of income tax we pay is subject to ongoing audits by the tax authorities, which often result in proposed assessments. We believe that we adequately provided for any reasonably foreseeable outcomes related to tax audits and settlement. However, our future results may include favorable or unfavorable adjustments to our estimated tax liabilities in the period the assessments are made or resolved, audits are closed or when statutes of limitation on potential assessments expire.

### ***Business Combinations***

We allocate the fair value of purchase consideration to the tangible assets acquired, liabilities assumed and intangible assets acquired based on their estimated fair values. The excess of the fair value of purchase consideration over the fair values of these identifiable assets and liabilities is recorded as goodwill. When determining the fair values of assets acquired and liabilities assumed, management makes significant estimates and assumptions, especially with respect to intangible assets.

Critical estimates in valuing certain intangible assets include but are not limited to future expected cash flows from customer relationships and acquired patents and developed technology; and discount rates. Management’s estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates.



Other estimates associated with the accounting for acquisitions may change as additional information becomes available regarding the assets acquired and liabilities assumed, as more fully discussed in Note 3 of the Financial Statements.

### ***Goodwill***

Goodwill is allocated to reporting units expected to benefit from a business combination. We perform tests for impairment of goodwill at the reporting unit level at least annually, or more frequently if events or changes in circumstances occur that would more likely than not reduce the fair value of a reporting unit below its carrying value. Goodwill impairment tests require judgment, including the identification of reporting units, assignment of assets and liabilities to reporting units, assignment of goodwill to reporting units, and determination of the fair value of each reporting unit.

During 2016 and 2017, we determined that certain indicators of potential impairment existed, which triggered goodwill impairment analysis for its reporting units. These indicators included a decrease in the Company's share price and a miss of the targeted budget due to lower sales and higher media buy as a percentage of revenues. Based on the goodwill assessment for the Undertone reporting unit in 2017, we determined that the carrying amount of the Undertone reporting unit exceeds its fair value and recorded an impairment charge of \$65.7 million to its goodwill. No such impairment charges were recorded in 2016.

### ***Impairment of Long-Lived Assets***

We are required to assess the impairment of tangible and intangible long-lived assets subject to amortization, under ASC 360 "Property, Plant and Equipment", on a periodic basis and when events or changes in circumstances indicate that the carrying value may not be recoverable. Impairment indicators include any significant changes in the manner of our use of the assets or the strategy of our overall business, significant negative industry or economic trends and significant decline in our share price for a sustained period.

Upon determination that the carrying value of a long-lived asset may not be recoverable based upon a comparison of aggregate undiscounted projected future cash flows from the use of the asset or asset group to the carrying amount of the asset, an impairment charge is recorded for the excess of carrying amount over the fair value. We measure fair value using discounted projected future cash flows. We base our fair value estimates on assumptions we believe to be reasonable, but these estimates are unpredictable and inherently uncertain. If these estimates or their related assumptions change in the future, we may be required to record impairment charges for our tangible and intangible long-lived assets subject to amortization. In 2015, we incurred impairment charges of \$8.5 million related to intangible assets associated with our reporting units (out of which \$3.4 million related to our Growmobile reporting unit, which are included as a loss from discontinued operations). In 2017, we incurred impairment charges of \$20.0 million related to intangible assets associated with our reporting units.

In addition, in connection with the restructuring plans in 2014 and 2015, we recorded an impairment of \$0.6 million and \$0.1 million, respectively, of property and equipment, respectively.

### ***Derivative and Hedge Accounting***

During fiscal 2015, 2016 and 2017, approximately 18%, 13% and 9%, respectively, of our operating expenses, respectively, were denominated in NIS. In order to mitigate the potential adverse impact on cash flows resulting from fluctuations in the exchange rate of the NIS, we started to hedge portions of our forecasted expenses with options contracts. The effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income and reclassified into earnings in the same period, or periods, during which the hedged transaction affects earnings. The ineffective portion of a derivative's change in fair value, if any, is recognized in earnings, as well as gains and losses from a derivative's change in fair value that are not designated as hedges are recognized in earnings immediately. We have also entered into a cross currency interest rate SWAP agreement in order to transform cash flow in NIS into USD of interest payments and principal as derived from our convertible debt conditions (see Note 8 and Note 10 of the Financial Statements). The SWAP contracts were not designated as hedging instruments and therefore gains or losses resulting from the change of their fair value are recognized in "financial income, net". We estimate the fair value of such derivative contracts by reference to spot rates quoted in active markets.

Establishing and accounting for foreign exchange contracts involve judgments, such as determining the fair value of the contracts, determining the nature of the exposure, assessing its amount and timing, and evaluating the effectiveness of the hedging arrangement.

Although we believe that our estimates are accurate and meet the requirement of hedge accounting, if actual results differ from these estimates, such difference could cause fluctuation of our recorded revenue and expenses.

## **Recent Accounting Standards**

In May 2014, the FASB issued Accounting Standards Update No. 2014-09 (ASU 2014-09) "Revenue from Contracts with Customers." ASU 2014-09 supersedes the revenue recognition requirements in "Revenue Recognition (Topic 606)", and requires entities to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. Topic 606 was further amended during 2016 as follows:

- In March 2016, by ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which clarifies the implementation guidance on principal versus agent considerations. The guidance includes indicators to assist an entity in determining whether it controls a specified good or service before it is transferred to the customers.
- In April 2016, by 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, that clarified two aspects of ASC 606, identifying performance obligations and the licensing implementation guidance, while retaining the related principles of those areas.
- In May 2016, by ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients. ASU 2016-12 address certain issues in the guidance on assessing collectability, presentation of sales taxes, noncash consideration, and completed contracts and contract modifications at transition.

The new standard further requires new disclosures about contracts with customers, including the significant judgments the company has made when applying the guidance.

As currently issued and amended, ASC 606 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period, using either of two methods: (1) full retrospective application or (2) modified retrospective application. The Company will adopt the new standard effective January 1, 2018, using the modified retrospective transition method. The Company finalized its analysis and the adoption of this guidance will not have a material impact on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases. ASU 2016-02 requires that long-term lease arrangements be recognized on the balance sheet. The standard is effective for interim and annual periods beginning after December 15, 2018, and early adoption is permitted. The Company is currently evaluating the impact of adoption on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718), Improvements to Employee Share-Based Payment Accounting. The ASU simplifies several aspects of the accounting for share-based payment transaction, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. The Company adopted ASU 2016-09 on January 1, 2017, and chose to continue to use the current method of estimating forfeitures each period rather than accounting for forfeitures as they occur. The adoption of the new standard had no material impact on the Company's consolidated financial statements.

In November 2016, the FASB issued Accounting Standards Update (ASU) 2016-18, Statement of Cash Flows: Restricted Cash, providing specific guidance on the cash flow classification and presentation of changes in restricted cash and restricted cash equivalents. Amounts generally described as restricted cash should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flow. The amendments in ASU 2016-18 are effective for fiscal years beginning after December 15, 2017, and interim periods therein. Early adoption is permitted, including adoption in an interim period. The standard requires application retrospective transition method.

In January 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2017-04, "Intangibles—Goodwill and Other (Topic 350): - Simplifying the Test for Goodwill Impairment", which eliminates the requirement to calculate the implied fair value of goodwill (i.e., Step 2 of the goodwill impairment test) for the purpose of measuring a goodwill impairment charge. Instead, an impairment charge shall be recognized based on the excess of a reporting unit's carrying amount over its fair value. The standard shall be applied prospectively and is effective for annual and interim impairment tests performed in periods beginning after December 15, 2019, for public entities. Early adoption is permitted for annual and interim goodwill impairment testing dates after January 1, 2017. The Company adopted the new guidance on January 1, 2017.

In August 2017, the FASB issued ASU No. 2017-12 (Topic 815) Derivatives and Hedging — Targeted Improvements to Accounting for Hedging Activities, which expands an entity's ability to hedge financial and nonfinancial risk components and amends how companies assess effectiveness as well as changes the presentation and disclosure requirements. The new standard is to be applied on a modified retrospective basis and is effective for interim and annual periods beginning after December 15, 2018, with early adoption permitted. The Company is currently evaluating the impact of adoption on the Consolidated Financial Statements.

## Results of Operations

The following table presents, for the periods indicated, our costs and expenses of our continuing operations, by category (in thousands of U.S. dollars):

	Year ended December 31,		
	2015	2016	2017
Cost of revenues*	\$ 7,877	\$ 25,924	\$ 24,659
Customer acquisition costs and media buy	91,194	140,210	130,885
Research and development*	21,692	25,221	17,189
Selling and marketing*	22,886	54,559	52,742
General and administrative	31,064	28,827	21,911
Depreciation and amortization	11,422	25,977	16,591
Restructuring costs	1,052	728	-
Impairment, net of change in fair value of contingent consideration	72,785	-	85,667
<b>Total Costs and Expenses</b>	<b>\$ 259,972</b>	<b>\$ 301,446</b>	<b>\$ 349,644</b>

\*Certain items of expense for the fiscal year of 2016 have been reclassified to conform to current year financial statement presentation.

The following table sets forth, for the periods indicated, our statements of operations expressed as a percentage of total revenues (the percentages may not equal 100% because of the effects of rounding):

	Year Ended December 31,		
	2015	2016	2017
<b>Revenues:</b>			
Search and other	85%	55%	51%
Advertising	15	45	49
<b>Total revenues</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Costs and expenses:</b>			
Cost of revenues	4%	8%	9%
Customer acquisition costs and media buy	41	45	48
Research and development	10	8	6
Selling and marketing	10	17	19
General and administrative	14	9	8
Depreciation and amortization	5	8	6
Restructuring charges	(*)	(*)	(*)
Impairment, net of change in fair value of contingent consideration	33	-	31
<b>Total costs and expenses</b>	<b>118</b>	<b>96</b>	<b>127</b>
<b>Operating income (loss)</b>	<b>(18)</b>	<b>4</b>	<b>(27)</b>
Financial expenses, net	1	3	2
<b>Income (loss) before taxes on income</b>	<b>(19)</b>	<b>1</b>	<b>(29)</b>
Income tax expense (benefit)	(*)	(*)	(3)
<b>Loss from continuing operations</b>	<b>(19)</b>	<b>(1)</b>	<b>(26)</b>
Loss from discontinuing operations, net	12	1	-
<b>Net loss</b>	<b>(31)%</b>	<b>(*)%</b>	<b>(26)%</b>

(\*) less than 1%

#### *Year Ended December 31, 2017 Compared to Year Ended December 31, 2016*

*Revenues.* Revenues decreased by 12%, from \$312.8 million in 2016, to \$274.0 million in 2017.

*Search and other revenues.* Search and other revenues decreased by 19% in 2017, from \$172.7 million in 2016, to \$139.5 million in 2017. This decrease was primarily due to the cleanup of our existing network and the chum of our legacy products.

*Advertising revenues.* Advertising revenues decreased by 4% in 2017, from \$140.1 million in 2016, to \$134.5 million in 2017. This decrease is attributable to slower than expected brand spend in the first quarter of 2017 relating to the uncertainty following the U.S. elections.

*Cost of revenues.* Cost of revenues decreased by 5%, from \$25.9 million in 2016, to \$24.7 million in 2017. cost of revenues remained stable in terms of the percentage of revenues, representing 8% and 9% of revenues in 2016 and 2017, respectively.

*Customer acquisition costs ("CAC") and media buy.* CAC and media buy decreased by 7%, from \$140.2 million or 45% of revenues in 2016, to \$130.9 million or 48% of revenues in 2017. In search, there was an increase as a percentage of revenues is primarily due to chum of our legacy products, while in advertising, the increase is mainly attributed to product mix and increased programmatic revenues with lower margins.

*Research and development expenses ("R&D").* R&D decreased by 32%, from \$25.2 million in 2016, to \$17.2 million in 2017. The decrease was primarily as a result of a decrease in headcount which reflects our efforts in adapting and maintaining compatibility with the ever-changing business landscapes and automation of our platforms and operating systems.

*Selling and marketing expenses (“S&M”).* S&M expenses decreased by 3%, from \$54.6 million in 2016, to \$52.7 million in 2017. The decrease was primarily as a result of decrease in stock based compensation expenses mostly due to our share price and a decrease in headcount.

*General and administrative expenses (“G&A”).* G&A decreased by 24%, from \$28.8 million in 2016, to \$21.9 million in 2017. The decrease is primarily due to corporate expense reductions and lower stock based compensation expenses due to our share price.

*Restructuring costs.* In 2016 and 2017, we incurred restructuring costs of \$0.7 million and \$0 million, respectively.

*Depreciation and amortization.* The decrease in depreciation and amortization is primarily attributable to the impairment of the acquired intangible assets from the Undertone acquisition.

*Impairment, net of change in fair value of contingent consideration.* In 2017 we determined that certain indicators of potential impairment existed, which triggered goodwill impairment analysis for its reporting units. These indicators included a decrease in the Company’s share price and a miss of the targeted budget due to lower sales and higher media buy as a percentage of revenues. We expect traffic acquisition costs (TAC) as a percentage of revenues to increase in 2018 and beyond as industry budgets shift toward automated channels. This trend is driven by higher TAC expectations related to increased revenues in programmatic and the effect of header bidding and Chrome ad blocker. As a result, the Company recorded an impairment charge of \$85.7 million in 2017, classified as “Impairment charges” in the consolidated statements of income.

*Taxes on income (benefit).* Taxes on income decreased by \$8.8 million from \$0.2 million in 2016 to a tax benefit of \$(8.6) million in 2017. The decrease was primarily a result of impairment charges which resulted in a decrease of deferred taxes.

*Net income (loss) from continuing operations.* Net income (loss) from continuing operations decreased by \$75.6 million, from net income of \$2.8 million in 2016, to net loss of \$72.8 million in 2017. The decrease resulted primarily from the impairment charge of \$85.7 million.

*Net loss from discontinued operations.* In March 2016, we decided to discontinue the mobile self-serve side of our business and put up for sale our Growmobile Engagement business. As a result, we classified these operations as discontinued operations reported separately for all periods presented. On July 25, 2016, the Company sold the mobile engage business, including the intellectual property, know-how and technology, for total consideration of \$1.75 million.

#### ***Year Ended December 31, 2016 Compared to Year Ended December 31, 2015***

*Revenues.* Revenues increased by 42%, from \$221.0 million in 2015, to \$312.8 million in 2016.

*Search and other revenues.* Search and other revenues decreased by 9% in 2016, from \$188.9 million in 2015, to \$172.7 million in 2016. This decrease was primarily a result of our decision to reduce customer acquisition costs starting from the third quarter of 2014 and subsequently move from a pay per install model to a revenue share model beginning the first quarter of 2015. As a result, the revenues from the previous pay per install model, which have no costs associated with them in the then current period, have been decreasing since the third quarter of 2014. As more than two years have already passed since these changes, the remaining install base is quite small, and while it continues to decline, the impact continues to be smaller than in previous years. While the cost free revenues from the previous pay per install model declined, we have been successful in offsetting most of that decline with new revenue share search revenues and we expect this trend to continue.

*Advertising revenues.* Advertising revenues increased by 337% in 2016, from \$32.1 million in 2015, to \$140.1 million in 2016. This increase is attributable to the revenues recorded from Undertone’s activity, which were recognized only since the acquisition date in late 2015.

*Cost of revenues.* Cost of revenues increased by 229%, from \$7.9 million in 2015, to \$25.9 million in 2016. This increase was primarily due to the cost of revenues associated to the Undertone operation, mainly in hosting expenses.

*Customer acquisition costs (“CAC”) and media buy.* CAC and media buy increased by 54%, from \$91.2 million in 2015, to \$140.2 million in 2016, primarily due to the nominal increase in the media buy costs associated with the Undertone acquisition. CAC and media buy increased from 41% of revenues in 2015 to 45% of revenues in 2016, primarily due to our transition to the revenue-share model, replacing the revenues that were without expense in 2015.

*Research and development expenses ("R&D").* R&D increased by 16%, from \$21.7 million in 2015, to \$25.2 million in 2016. The increase was primarily associated with the expenses resulting from the Undertone acquisition.

*Selling and marketing expenses ("S&M").* S&M expenses increased by or 138%, from \$22.9 million in 2015, to \$54.6 million in 2016. The increase in S&M as a percentage of revenues is primarily due to the Undertone acquisition.

*General and administrative expenses ("G&A").* G&A decreased by 7%, from \$31.1 million in 2015, to \$28.8 million in 2016. The decrease is primarily associated with one-time \$4.6 million acquisition costs in 2015 and the inclusion of Undertone operations for a full year.

*Restructuring costs.* In October 2015, the Company initiated a restructuring plan of its consumer apps department, reducing headcount, closing certain facilities and taking other cost saving measures. In 2015 and 2016, we incurred restructuring costs of \$1.1 million and \$0.7 million, respectively.

*Depreciation and amortization.* The increase in depreciation and amortization is primarily attributable to the amortization of the acquired intangible assets from the Undertone acquisition.

*Impairment, net of change in fair value of contingent consideration.* In 2015, we determined that certain indicators of potential impairment that required an interim goodwill impairment analysis for our reporting units existed in 2015. These indicators included a decrease in our share price and lower than expected sales and cash flow, as well as managerial decisions to abandon certain R&D projects. Based on our goodwill assessment for the search monetization reporting unit, we determined that the carrying amount of the reporting unit exceeds its fair value amount, as a result an impairment of \$70.9 million was recorded.

In addition, we performed an impairment review of several intangible assets that were recognized in connection with the acquisitions of Perion, which resulted in an impairment of \$8.5 million. The impairment charges were measured as the difference between the carrying amounts of those intangible assets and their fair values.

These expenses were partially offset in 2015 by a net gain of \$6.6 million, pursuant to an amendment to the Grow Mobile acquisition agreement, reversing the previously recorded contingent payment of \$9.1 million, in exchange for a payment of \$2.5 million, \$1.5 million out of which was paid in cash, and \$1.0 million was paid in our ordinary shares that were issued to Grow Mobile's former shareholders.

No impairment charges were recorded in 2016.

*Taxes on income.* Taxes on income decreased by \$0.5 million from \$0.7 million in 2015 to \$0.2 million in 2016.

*Net income (loss) from continuing operations.* Net income (loss) from continuing operations increased by \$44.5 million, from net loss of \$41.7 million in 2015, to net income of \$2.8 million in 2016. The increase resulted primarily from the non-recurring impairment and restructuring costs of \$73.8 million recorded in 2015, partially offset by the decline in previous pay per install revenue model (which have no costs associated with them in the then current period) of the search revenue from 2015 to 2016.

*Net loss from discontinued operations*

In March 2016, we decided to discontinue the mobile self-serve side of our business and put up for sale our Growmobile Engagement business. As a result, we classified these operations as discontinued operations reported separately for all periods presented. On July 25, 2016, the Company sold the mobile engage business, including the intellectual property, know-how and technology, for total consideration of \$1.75 million (see Note 1(c) of the Financials Statements).

## B. LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2017, we had \$37.5 million in cash, cash equivalents and short-term deposits, compared to \$32.4 million at December 31, 2016. The \$5.1 million increase is primarily the result of \$36.0 million cash provided by operating activities offset by \$21.2 million repayment of our short and long term debt and \$4.9 million used in other investing activities.

For 2015, 2016 and 2017, our cash flows were as follows (in thousands of U.S. dollars):

	Year ended December 31		
	2015	2016	2017
Net cash provided by continuing operating activities	\$ 23,772	\$ 33,784	\$ 36,013
Net cash used in discontinued operating activities	(6,203)	(3,329)	-
Net cash provided (used in) investing activities	(120,446)	28,731	(4,851)
Net cash provided by (used in) financing activities	19,199	(52,607)	(23,840)
	<u>\$ (83,678)</u>	<u>\$ 6,579</u>	<u>\$ 7,322</u>

#### *Net cash provided by continuing operating activities*

In 2017, our operating activities provided cash in the amount of \$36.0 million, primarily as result of net loss in the amount of \$72.8 million, decreased by non-cash expenses including, impairment charge of \$85.7 million, depreciation and amortization of \$16.6 million, share-based compensation expenses of \$2.1 million and net change of \$4.4 million in operating assets and liabilities

In 2016, our continuing operating activities provided cash in the amount of \$33.8 million, primarily as a result of net income from continuing operations in the amount of \$2.8 million, decreased by non-cash expenses including, depreciation and amortization of \$26.0 million and share-based compensation expenses of \$6.8 million, partially offset by net changes of \$1.9 million in operating assets and liabilities.

In 2015, our continuing operating activities provided cash in the amount of \$23.8 million, primarily as a result of net loss in the amount of \$41.7 million, decreased by non-cash expenses including, impairment expenses of \$79.3 million, depreciation and amortization of \$11.4 million and share-based compensation expenses of \$6.7 million, partially offset by a decrease of \$5.6 million in the payment obligation related to an acquisition and by net changes of \$26.3 million in operating assets and liabilities.

#### *Net cash used in investing activities*

In 2017, our investing activities used \$4.9 million cash, primarily due to \$5.8 million invested in development costs that were capitalized, \$2.5 million of proceeds from maturities of short-term bank deposits and \$1.6 million invested in the purchase of property and equipment.

In 2016, our investing activities provided \$28.7 million cash, primarily due to \$34.0 million of proceeds from maturities of short-term bank deposits and the removal of restriction on cash in the amount of \$0.7 million, partially offset by \$4.6 million invested in capitalized development costs and \$1.4 million invested in the purchase of property and equipment, net of proceeds from sale.

In 2015, our investing activities used \$120.4 million cash, primarily due to \$27.4 million invested in short-term bank deposits, \$81.7 million used for the acquisition of Undertone, \$5.3 million used for the acquisition of Make Me Reach, \$4.0 million invested in development costs that were capitalized and \$2.0 million invested in the purchase of property and equipment.

#### *Net cash provided by (used in) financing activities*

In 2017, we used \$23.8 million cash, primarily due to \$2.5 million used for the repayment of obligations related to the Undertone acquisition, \$11.4 million in repayments of long-term loans, \$5.0 million proceeds from long-term loans, \$7.9 million repayment of our convertible bonds, and \$7.0 million repayments of short-term loans, net.

In 2016, we used in our financing activities \$52.6 million cash, primarily due to \$29.5 million used for the repayment of obligations related to the Undertone acquisition, \$9.5 million repayments of long-term loans, \$7.6 million repayment of our convertible bonds, and \$6.0 million repayments of short-term loans, net.

In 2015, our financing activities provided \$19.2 million cash, primarily due to the \$13.0 million proceeds from a short-term loan and proceeds from issuance of shares in the amount of \$10.0 million, partially offset by \$2.3 million repayment of long-term bank loans and \$1.5 million of payment made in connection with a prior acquisition.

#### *Credit facilities*

On May 17, 2012, we entered into a loan agreement with two Israeli banks, pursuant to which we borrowed \$10.0 million. In December 2014, we executed a cross-currency and interest swap transaction with one of the banks in order to mitigate the potential impact of the fluctuations in the NIS and US\$ exchange rate in regard to the future interest and principal payments of our convertible bonds (described below), which are denominated in NIS. On April 1, 2015, we amended the loan agreement to ensure the fulfillment of the financial covenants, effective December 31, 2014. As of December 31, 2016, we have fully repaid one of the loans, and as of April 30, 2017, we fully repaid the second loan.

On November 30, 2015, concurrent with the closing of the Undertone acquisition, Undertone entered into a new secured credit agreement with SunTrust Bank, Silicon Valley Bank and Comerica Bank, (the Comerica Bank having been replaced in 2016 by Cadence Bank. During 2016, we made a prepayment of \$5.0 million which was applied to the final principal upon maturity and another \$5.0 million in 2017. In November 3, 2017, Undertone opted to exercise its equity cure right in order to cure certain financial covenant defaults for the fiscal quarter ending September 30, 2017. To that extent, Undertone paid \$1.58 million which was applied to subsequent amortization payments in the direct order of maturity as well as an additional \$0.264 million which was applied to the amortization payment for December 31, 2017. In addition, in March 2018, Undertone entered into a fourth amendment and waiver to the secured credit agreement, which amends the financial covenants and provides for a waiver of the financial covenant defaults of the quarter ending December 31, 2017. In March 2018, Undertone made a prepayment of \$8.0 million which was applied to the final principal maturity. The outstanding principal amount bears interest at LIBOR plus 5.5% per year and is secured by substantially all the assets of the companies in the Undertone group, and by guarantees of such companies. The loan is required to be prepaid in certain circumstances, such as from proceeds of asset sales or casualty insurance policies, debt or equity offerings, or from excess cash flow in the event that Undertone's total leverage ratio exceeds specified targets, and a pro rata portion of indemnification payments (or offset of the holdback amount) under our merger agreement with Undertone.

Under the Undertone credit facility, as amended by the fourth amendment, Undertone is required to maintain the following financial covenants as of the end of each fiscal quarter:

- minimum total leverage ratio ranging from 2.65 to 1.75 during the course of the credit facility; and
- fixed coverage ratio ranging between 1.2 to 2.0 during the course of the credit facility.

In addition, the fourth amendment also provides for additional covenant relief for every \$2.0 million increment of voluntary prepayments on the term loan up to \$4.0 million, which provide us with an option to improve the following financial covenants:

- minimum total leverage ratio ranging from 2.75 to 1.75 during the course of the credit facility; and
- fixed coverage ratio of ranging between 1.10 and 2.0 during the course of the credit facility.

The Undertone credit facility contains customary restrictive covenants, including those regarding indebtedness and preferred equity, liens, fundamental changes, investments, loans, restricted payments, asset sales, transactions with affiliates, restrictive agreements and sale and leaseback transactions. It also contains customary events of default, including a "change in control", which is defined to include, among other things, the acquisition of record or beneficial ownership by any person or group of 35% or more of Perion's outstanding ordinary shares or the failure of continuing directors to constitute a majority of Perion's board of directors over a period of 24 consecutive months. As of December 31, 2017, the balance of the loan is \$31.5 million, out of which \$27.6 million classified as long-term debt and \$3.9 million as current maturities.

#### *Bank Mizrahi credit facility*

On May 10, 2017, ClientConnect executed a new credit facility with Bank Mizrahi-Tefahot, an Israeli bank, pursuant to which ClientConnect may borrow up to \$17.5 million. The credit facility is secured by a lien on the accounts receivable of ClientConnect, from its current and future business clients and is guaranteed by Perion. The credit facility matures in May 2020. On May 15, 2017, we drew \$5.0 million from its available credit line with equally monthly installments of \$0.14 million until maturity in June 2020. The outstanding principal amount bears interest at LIBOR plus 5% per year. As of December 31, 2017, the balance of the loan is \$4.2 million out of which \$2.4 million is classified as long term debt and \$1.8 million as current maturities.

#### *Series L Convertible Bonds*

On September 23, 2014, we completed a public offering in Israel of Series L Convertible Bonds (the "Bonds"). The Bonds have an aggregate principal amount of approximately NIS 143.5 million (approximately \$39.2 million), of which, as of December 31, 2017, approximately NIS 86.1 million are outstanding (approximately \$24.8 million). The Bonds, which are listed on the TASE, are convertible into an aggregate of approximately 4.3 million ordinary shares, at a conversion price of NIS 33.605 per share (approximately \$9.69 per share as of December 31, 2017). The principal of the Bonds is repayable in five equal annual installments commenced on March 31, 2016, with a final maturity date of March 31, 2020. The Bonds bear interest at the rate of 5% per year, subject to increases up to 6%, in the event of downgrades of our debt rating. On February 15, 2018, Standard & Poor's Maalot Ratings Services reaffirmed our corporate credit rating of iIA-, with a stable outlook. The interest is payable semi-annually on March 31 and September 30 of each of the years 2015 through 2019, as well as a final payment on March 31, 2020.



Under the terms of our Bonds, our ability to make distributions is subject to various limitations. In addition, we are required to maintain and comply with the following financial covenants:

- shareholders' equity of at least \$120 million at the end of each quarter;
- ratio of net financial indebtedness to twelve-month EBITDA of not more than 2.5 at the end of each quarter;
- twelve-month EBITDA at the end of each quarter of not less than 40% of original aggregate principal amount of the bonds; and
- cash and cash equivalents of at least \$10 million (and, six months prior to each principal payment date, a sufficient amount to repay the principal and interest then due).

As of December 31, 2017, we were in compliance with all of the foregoing covenants.

The Company may redeem the Bonds upon delisting of the Bonds from the TASE, subject to certain conditions. In addition, the Company may redeem the Bonds or any part thereof at its discretion, subject to certain conditions.

#### *Private placement*

On December 3, 2015, we completed a private placement of 4,436,898 ordinary shares for gross proceeds of \$10 million, net of legal fees, pursuant to a securities purchase agreement with J.P. Morgan Investment Management Inc., as investment advisor to the National Council for Social Security Fund and 522 Fifth Avenue Fund L.P. (collectively referred to as the "Investors"). The purchase price per share was \$2.282 per share, which was the average closing price of an ordinary share on the Nasdaq Global Select Market for the 30 trading days ending on December 1, 2015. According to a one-time price adjustment mechanism in the securities purchase agreement, on September 1, 2016, the per share purchase price was adjusted downward by 15%, and we issued to the Investors 782,981 additional ordinary shares.

#### *Financing Needs*

We believe that our current working capital and cash flow from operation are sufficient to meet our operating cash requirements for at least the next twelve months, including payments required under our existing bank loans and convertible bonds.

### **C. RESEARCH, DEVELOPMENT, PATENTS AND LICENSES, ETC.**

Our research and development activities are conducted internally by a 106 persons at December 31, 2017. Research and development expenses were \$21.7 million, \$25.2 million and \$17.2 million in the years ended December 31, 2015, 2016 and 2017, respectively. In 2017, our efforts were focused in adapting and maintaining compatibility with the ever-changing business landscapes and automation of our platforms and operating systems.

For a discussion of our intellectual property and how we protect it, see "Business Overview—Intellectual Property" under Item 4.B above.

### **D. TREND INFORMATION**

*Industry trends expected to affect our revenues, income from continuing operations, profitability and liquidity or capital resources:*

1. The digital advertising environment is very crowded and consumers suffer from over exposure to advertising promotions. This in turn has brought on a certain level of blindness to advertising, decreasing their effectiveness and value to advertisers. We are therefore concentrating on unique stand-out quality ad formats with great creative execution that grabs the attention of consumers, increasing the effectiveness of the ad and ultimately the value to advertisers.
2. The digital advertising environment is also complex and fragmented. As a result, it is increasingly difficult for advertisers, including brands and agencies, as well as investors, to discern the difference between the offerings, and this situation requires that advertisers to maintain only small number of relationships which provide a comprehensive and holistic solution and service. In addition, advertisers are looking for clean, safe and transparent solutions. We are attempting to address these needs in our various revenue streams by providing robust, scalable and differentiated products across multiple platforms. Our solution offers a full suite of services for the advertising brand and agency, including the entire advertising process from creative through analytic data collection and processing which is also utilized through programmatic capabilities which has an increasing demand. Our solution also includes a technology platform for buying media on social and mobile platforms which helps optimize the money spent by agencies and advertisers. In turn, we also provide the publisher a solution for creating new advertising inventory and increasing their revenue.

3. Our search monetization revenue is predominantly within the desktop computers environment, encouraging the development of downloadable software and advertising on the desktop. The transition of consumer consumption of utility and content towards mobile platforms has accelerated and, as a result, an increasing share of advertising campaigns are channeled towards mobile platforms and fewer consumer software downloadable products are being developed. To address this trend, we have shifted the growth focus of all parts of this business away from downloadable desktop software.
4. In past years the browser companies, particularly Google and Microsoft, as well as others, have been instituting policy changes and regulations making it increasingly difficult to change a browser's settings even with user consent, including the ability to change a browser's default search settings. Changing such settings has been a major part of the Company's monetization model and until now we have been successful in dealing with these measures, within the framework allowed by these companies; however, it is becoming increasingly difficult to do so. In connection with these efforts by the browser companies, they are also making an effort to reset the applicable browser's settings back to its default setting, causing us to have to recapture our users on a more frequent basis. These activities have shortened the average lifetime we see from users utilizing our search settings. This has reduced the return on investment from our marketing and distribution efforts. Moreover, the increased frequency of changes has limited our visibility and therefore our ability to invest in customer acquisition. However, we continue to believe, as supported by the level of revenues over the last couple of years, that as the market continues to consolidate around accepted marketing practices, there remains sufficient business at a level sufficient to generate significant revenues and profits.

For more information on uncertainties, demands, commitments or events that are reasonably likely to have a material effect on our business, see Item 3 "Key Information—Risk Factors."

For additional trend information, see the discussion in "Item 5.A Operating and Financial Review and Prospects – Operating Results."

#### E. OFF-BALANCE SHEET ARRANGEMENTS

We do not have off-balance sheet arrangements (as such term is defined by applicable SEC regulations) that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial conditions, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

#### F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The following table summarizes our contractual commitments as of December 31, 2017 and the effect those commitments are expected to have on our liquidity and cash flow in future periods. All numbers below are in US dollars in thousands.

Contractual Commitments as of December 31, 2017	Payments Due by Period <sup>(****)</sup>				
	Total	Less than 1 year	1-3 Years	3-5 Years	More than 5 Years
Long-term debt, including current portion (*)	\$ 36,510	\$ 6,104	\$ 30,406	\$ -	\$ -
Accrued severance pay (**)	2,417	-	-	-	2,417
Convertible debt (*)	24,832	8,278	16,554	-	-
Payment obligation related to acquisitions(***)	5,146	5,146	-	-	-
Operating leases	24,520	6,350	7,745	6,042	4,383
<b>Total</b>	<b>\$ 93,427</b>	<b>\$ 25,877</b>	<b>\$ 54,708</b>	<b>\$ 6,042</b>	<b>\$ 6,800</b>

(\*) Long-term debt and convertible debt obligations represent maximum repayment of principal and do not include interest payments due thereunder.

(\*\*) Prior notice to our executive employees as well as severance pay obligations to our Israeli employees, as required under Israeli labor law and as set forth in employment agreements, are payable only upon termination, retirement or death of the respective employee and are for the most part covered by ongoing payments to funds to cover such obligations.

(\*\*\*) Payment obligation related to acquisitions, represents the maximum cash payments we will be obligated to make under consideration arrangements with former owners of certain entities we acquired.

## ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

### A. DIRECTORS AND SENIOR MANAGEMENT

The following table sets forth information regarding our executive officers and directors as of March 12, 2018:

Name	Age	Position
Alan Gelman*(1)(2)+	62	Chairman of the Board
Doron Gerstel	57	Chief Executive Officer
Maoz Sigron	40	Chief Financial Officer
Dror Erez	48	Director
Sarit Firon*(1)(3)(4)	51	External Director
Roy Gen <sup>(1)</sup>	46	Director
Avichay Nissenbaum*(2)(3)(4)	51	External Director
Michael Vorhaus*(2)(3)(4)	60	Director
Rini Karlin	45	Senior Vice President, Human Resources
Miki Kolko	55	Chief Technology Officer
Mike Glover	55	General Manager, Search
Michael Pallad	45	President, Undertone
Ran Cohen	47	Senior Vice President, Product

\* “Independent director” under the NASDAQ Listing Rules.

+ On March 4, 2018, Mr. Alan Gelman, the Company’s chairman of the board of directors, notified us that due to his desire to pursue other opportunities, he will step down from his position as the Company’s chairman of the board as well as a director no later than May 4, 2018.

(1) Member of the investment committee.

(2) Member of the nominating and governance committee.

(3) Member of the compensation committee.

(4) Member of the audit committee.

There are no arrangements or understandings between any of our directors or executive officers and any other person pursuant to which our directors or executive officers were selected.

*Alan Gelman* has been a director of the Company since August 2011 and as its Chairman of the Board since January 2016. From January 2014 until December 2015, he also served as a director of Ion Asset Management Ltd. From December 2012 through May 2013, he served as the Global CFO and Deputy CEO of Better Place Inc. (in liquidation). From 2008 to 2012, Mr. Gelman served as the Chief Financial Officer and Deputy Chief Executive Officer of Bezeq the Israeli Telecommunication Corp Ltd. (TASE: BEZQ). From 2006 to 2007, Mr. Gelman served in various positions at the Delek Group Ltd. (TASE: DELKG), including as the Deputy CEO and Chief Financial Officer from 2006 to 2007. From 2001 to 2006, Mr. Gelman served as the Chief Financial Officer of Partner Communications Company Ltd. (NASDAQ and TASE: PTNR), and from 1997 to 2000, he served as the Chief Financial Officer of Barak ITC. He holds a B.A. in Accounting from Queens College and an M.B.A. from Hofstra University. Mr. Gelman is licensed as a Certified Public Accountant in New York (inactive) and in Israel.

*Doron Gerstel* has been the Chief Executive Officer of the Company since April 2017. In his previous role as CEO of Panaya Ltd., Mr. Gerstel led a company turnaround that saw an increase in annual revenue and the company’s acquisition by Infosys Limited. Mr. Gerstel has also held CEO positions at Nolio Ltd., Syneron Medical Ltd. and Zend Technologies Ltd. Mr. Gerstel holds a BSc. in Economics and Management from the Technion Institute of Technology in Haifa, and an MBA from Tel Aviv University.

*Maoz Sigron* has been the Chief Financial Officer of the Company since February 2018. Prior to that, since September 2017 until February 2018, Mr. Sigron served as our VP Finance. Previously, he served in various finance leadership and senior accounting positions at Tnuva Dairy Corporation, Allot Communications Ltd. (NASDAQ:ALLLT) and Stratasys Ltd. (NASDAQ:SSYS) as well served as a CPA with PwC. Mr. Sigron holds a B.A in accounting and Economics from the College of Management.

*Dror Erez* has been a director of the Company since January 2014. In 2005, Mr. Erez co-founded Conduit and has served as its Chief Technology Officer until January 2014, when he became Conduit’s President. Mr. Erez is also a member of the Conduit board of directors. Prior to founding Conduit, he served in various executive roles in private technology companies. He holds a B.A. in Physics and Computer Science from Bar Ilan University.

*Sarit Firon* has been an external director of the Company since January 2017. Since November 2014, Ms. Firon is a managing partner of Cerca Partners, an Israeli venture capital fund. She has served at Extreme Reality Ltd., as its chief executive officer from December 2012 to November 2014 and as a director since December 2014. From November 2011 to November 2012, Ms. Firon was the Chief Financial Officer of Kenshoo Ltd. From November 2007 to October 2011, Ms. Firon was the Chief Financial Officer of MediaMind Technologies Inc., a Nasdaq listed company which was acquired by DG, Inc. in August 2011. From May 2005 to June 2007, Ms. Firon was the Chief Financial Officer of OliveSoftware and from January 2000 to October 2004, she was the CFO of P-Cube, a private company which was acquired in October 2004 by Cisco Systems, Inc. (NASDAQ:CSCO). From October 2004 to January 2005, Ms. Firon was employed by Cisco to be responsible for the post-merger integration of P-Cube. From January 1995 to December 1999, Ms. Firon served in various positions at Radcom Ltd. (NASDAQ: RDCM), including as its Chief Financial Officer from September 1997 to December 1999. Since July 2015, she has served as Chairperson of the Board of myThings Israel Ltd. Since June 2014, Ms. Firon has served as a director of Datorama Ltd. (NASDAQ: MDWD), and since June 2012, Ms. Firon has served as a director of Datorama Ltd. From October 2000 to December 2006, Ms. Firon served as a director of MetaLink Ltd. (OTCMKTS: MTLK). Ms. Firon holds a B.A. in Accounting and Economics from Tel-Aviv University, Israel.

*Roy Gen* has been a director of the Company since January 2014. Since 2008, he serves as the Chief Financial Officer of Conduit. Prior to joining Conduit, Mr. Gen served in various executive roles in private technology companies. He is an Israeli Certified Public Accountant and holds a B.A. in Economics and Accounting from Tel Aviv University, as well as an M.B.A. from the Recanati School of Business Administration at Tel Aviv University.

*Avichay Nissenbaum* has been an external director of the Company since July 2009, and in August 2015, he was reelected to serve a third three-year term. In 2012, Mr. Nissenbaum co-founded Lool Ventures L.P. and has since served as its general partner. In 2006, Mr. Nissenbaum co-founded Yedda, Inc., which was acquired by AOL, Inc. (NYSE: AOL) in November 2007. He served as Yedda's Chief Executive Officer from 2006 to 2011. In 1996, Mr. Nissenbaum co-founded SmarTeam Corporation Ltd., which was acquired by Dassault Systems, S.A. in 1999. From 1996 to 2005, Mr. Nissenbaum served in various positions at SmarTeam, including as VP Product, Executive VP Sales, Marketing and Business Development. Mr. Nissenbaum serves as a director of Tipa-Corp Ltd., as well as certain portfolio companies of Lool Ventures, including Zooz Ltd., Familio Technologies Ltd., Online Permission Technologies, Mediasafe, Sensibo Ltd., Shopial Ltd. Farm Dog Inc., Dbmaestro, Lawgeek and Mabaya. Mr. Nissenbaum also serves as a director of a non-for-profit organization named "Leaders of the Future". Mr. Nissenbaum holds a B.Sc. in Computer Science and a B.A. in Economics, both from Bar-Ilan University.

*Michael Vorhaus* has been a director of the Company since April 2015. Since 1994, he has served as President of Frank N. Magid Associates, Inc., a research-based strategic consulting firm. From 1994 to 2008, he served as its Senior Vice President and Managing Director and since 2008 he has served as the President of Magid Advisor, a unit of Magid Associates. From 2013-2014, Mr. Vorhaus served as a director of Grow Mobile. In 1987, he founded Vorhaus Investments. Mr. Vorhaus holds a B.A. in Psychology from Wesleyan University and completed the Management Development Program at the University of California, Berkeley's Haas School of Business.

*Rini Karlin* has been the Senior Vice President of Human Resources of the Company since October 2016. From 2004 until 2016, Ms. Karlin served in various positions at Converse – Xura (NASDAQ:MESG) including as Associated VP - Head of Israel HR, from 2014 to 2016, and as Associated VP - Head of HR Global Service Centers, from 2011 to 2014. From 1998 until 2004, Ms. Karlin served as strategic organizational consultant at Lotem, a strategic development consultancy company. Ms. Karlin holds a B.A. in Social Science from Bar Ilan University.

*Miki Kolko* has been the Chief Technology Officer of the Company since January 2015. From 2012 to 2014 Mr. Kolko served as the Company VP of the Data Services Group. Previously, Mr. Kolko served as vice president of data at LivePerson (NASDAQ:LPSN), a global leader of digital engagement technology. Prior to his work at LivePerson, Mr. Kolko served in various engineering executive management positions and was a founder and chief technology officer of 3 startups in enterprise software and Internet B2C. Mr. Kolko holds an M.Sc. in computer science from Tel Aviv University and a B.A. in mathematics and computer science from Bar Ilan University.

*Michael J. Glover* has been the General Manager of the Search Reporting Unit of the Company since May 2017; previously Mr. Glover was President of InfoSpace LLC where he also served as Vice President, Distribution and Business Development from October 2008 to April 2013. Mr. Glover hold a B.S in Business Administration from the Oregon State University.

*Michael Pallad* has been President of Undertone since August 2017. From 2015 to 2017, he served as Undertone's Chief Revenue Officer. Previously, Mr. Pallad served as Director of Sales at Apple Inc.'s Apple Music and iAd divisions. Prior to his work at Apple, Mr. Pallad served in various executive-level positions. Mr. Pallad holds a B.A. in business marketing from Arizona State University.

*Ran Cohen* has been the SVP Product of the company since December 2017. From 2014 to 2016 Mr. Cohen served as VP Programmatic Strategy for Undertone and prior to that he was the co-founder and president of Legolas Media (Acquired by Undertone). Prior to that, Mr. Cohen served as VP Product at Sizmek Inc. (formerly known as Eyeblaster Inc.). Mr. Cohen holds an MBA from Tel Aviv University and B.A in economics and Asian studies from the Hebrew University.

There are no family relationships between any of our directors or executive officers.

## **B. COMPENSATION**

The aggregate direct compensation we paid to our officers as a group (including our former officers, 15 persons) for the year ended December 31, 2017, was approximately \$5.7 million, which included approximately \$0.5 million that was set aside or accrued to provide for pension, retirement, severance or similar benefits. This amount includes bonuses paid to our officers pursuant to our executive bonus plan based on company performance measures, in accordance with our Compensation Policy for Directors and Officers. This amount does not include expenses we incurred for other payments, including dues for professional and business associations, business travel and other expenses, and other benefits commonly reimbursed or paid by companies in Israel.

The aggregate compensation we paid to our directors who are not officers for their services as directors as a group for the year ended December 31, 2017 was approximately \$0.4 million. In addition, our directors are reimbursed for expenses incurred in order to attend board or committee meetings.

In the year ended December 31, 2017, we granted (i) options to purchase 4,823,668 ordinary shares to our officers, at a weighted average exercise price of \$1.64 per share, and the latest expiration date for such options is December 2024. These options were granted under our Equity Incentive Plan, as amended, formerly known as the 2003 Israeli Share Option Plan (the "Incentive Plan").

In 2017, we paid each of our directors \$50,000 per year, subject to adjustment for changes in the Israeli consumer price index and applicable changes in the Israeli regulations governing the compensation of external directors. Each of our directors also received, on February 25, 2018, an annual grant of options to purchase 25,000 ordinary shares under the Incentive Plan. Each option is exercisable for a term of five years at an exercise price per share equal to the average stock market price of the 90 days prior to the annual meeting of shareholders on which such option was granted, as reported by the NASDAQ Stock Market. The options vest in three equal installments on each anniversary of date of grant. Following termination or expiration of the applicable director's service with the Company, provided that the termination or expiration is not for "cause" and is not a result of the director's resignation, the options would retain their original expiration dates and, with respect to each grant, the upcoming tranche of options that are scheduled to vest immediately subsequent to the termination date, if any, will automatically vest and become exercisable. All unvested options held by the director will automatically vest and become exercisable upon a change of control of the Company, which is defined for this purpose as (i) a merger, acquisition or reorganization of the Company with one or more other entities in which the Company is not the surviving entity, (ii) a sale of all or substantially all of the assets of the Company; (iii) a transaction or a series of related transactions as a result of which more than 50% of the outstanding shares or the voting rights of the Company are beneficially owned by one person or group (as defined in the SEC rules).

The table below reflects the compensation granted to our five most highly compensated office holders during or with respect to the year ended December 31, 2017. We refer to the five individuals for whom disclosure is provided herein as our "Covered Executives."

For purposes of the table below, "compensation" includes salary cost, bonuses, equity-based compensation, retirement or termination payments, benefits and perquisites such as car, phone and social benefits and any undertaking to provide such compensation. All amounts reported in the table are in terms of cost to the Company, as recognized in our financial statements for the year ended December 31, 2017, including the compensation paid to such Covered Executive following the end of the year in respect of services provided during the year. Each of the Covered Employees was covered by our D&O liability insurance policy and was entitled to indemnification and exculpation in accordance with applicable law and our articles of association. All numbers below are in US Dollars in thousands.

Name and Principal Position (1)	Salary Cost (2)(3)	Bonus (4)	Equity-Based Compensation (5)	Total
Doron Gerstel, Chief Executive Officer	619	39	227	885
Michael Pallad, President, Undertone	642	71	19	732
Mike Glover, General Manager, Search	473	48	45	566
Miki Kolko, Chief Technology Officer	372	55	121	548
Yacov Kaufman, Former Chief Financial Officer	270	-	168	438

- (1) Unless otherwise indicated herein, all Covered Executives are employed on a full-time (100%) basis.
- (2) Salary cost includes the Covered Executive's gross salary plus payment of social benefits made by the Company on behalf of such Covered Executive. Such benefits may include, to the extent applicable to the Covered Executive, payments, contributions and/or allocations for savings funds (e.g., Managers' Life Insurance Policy), education funds (referred to in Hebrew as "*keren hishtalmut*"), pension, severance, risk insurances (e.g., life, or work disability insurance), payments for social security and tax gross-up payments, vacation, car, medical insurances and benefits, phone, convalescence or recreation pay and other benefits and perquisites consistent with the Company's policies.
- (3) Includes a total of \$918 of dismissal notice accrued during 2017 with respect to the Covered Executive as a group.
- (4) Annual bonuses granted to the Covered Executives based on formulas set forth in the annual compensation plan approved by the Board of Directors.
- (5) Represents the equity-based compensation expenses recorded in our consolidated financial statements for the year ended December 31, 2017. Such numbers are based on the option or RSU grant date fair value in accordance with accounting guidance for equity-based compensation and does not necessarily reflect the cash proceeds to be received by the applicable officer upon the vesting and sale of the underlying shares. For a discussion of the assumptions used in reaching this valuation, see Note 2 to our Financial Statements.

#### Compensation Terms of our Chief Executive Officer

Doron Gerstel serves as our Chief Executive Officer from April 2017. His monthly base salary is NIS 95,000 (equivalent to approximately \$27,400), and he is entitled for customary benefits (including those mandated by applicable law and/or generally provided to other executive officers of the Company), including managers' insurance or pension arrangement, disability insurance, severance pay (pursuant to Section 14 of the Severance Pay Law), educational savings fund, private health insurance, indemnification, liability insurance (including for the period of seven years following termination), convalescence pay, meal plan, cellular telephone and personal computer.

Mr. Gerstel is also entitled for up to a maximum of nine (9) monthly salaries, based on the Company's achievement of its annual EBITDA and revenue targets, as determined by the Board of Directors for the applicable fiscal year. One-half of the bonus will be payable if the EBITDA target is fully achieved and the other one-half of the bonus will be payable if the revenue target is fully achieved, subject to the following:

- No bonus will be payable if less than 75% of the EBITDA target is achieved;
- To the extent that 90% of a given target is achieved (but less than 100%), a reduced bonus in respect of such target will be payable based on a 1:2 ratio, i.e., a reduction of 2% per each shortfall of 1%. For example, if 95% of the EBITDA target is achieved and 100% of the revenue target is achieved, then 95% of the maximum bonus would be payable (90% in respect of the EBITDA target and 100% in respect of the revenue target); and
- To the extent that the achievement of one target is more than 100% and the other is less than 100% (but at least 90%), the bonus shall be increased for the over-achievement based on a 1:1 ratio, subject to the aforesaid maximum bonus. For example, if 95% of the EBITDA target is achieved and 105% (or more) of the revenue target is achieved, then 100% of the maximum bonus would be payable.

In addition, Mr. Gerstel was granted with two stock option grants under the Company's Incentive Plan: (i) option to purchase up to 1,161,834 ordinary shares at an exercise price per share of \$1.63 (which was the approximate market price per ordinary shares on the NASDAQ Stock Market on the date of the employment agreement); and (ii) option to purchase up to 1,161,834 ordinary shares at an exercise price per share of \$2.63 (together, the "Options").

The Options are exercisable for cash or on a "cashless" basis, at the election of Mr. Gerstel, and have a term of six years, which will not be reduced in the event that employment terminates prior thereto, except in the event of termination for "Cause" (as defined in the employment agreement). The Options vest during the term of employer-employee relations, in quarterly installments, over a period of four years. The vesting schedule of the Options will fully accelerate (i) upon the closing of a "Transaction" (as defined below) or (ii) if the employee is terminated without "Cause" or if he resigns as a result of being demoted or relocated, in each case, within 12 months following a "Change of Control" (as defined below).

Each grant constitutes approximately 1.5% of the outstanding ordinary shares as of March 12, 2018.

At the annual general meeting of our shareholders held on February 15, 2018, and as part of a cross-company repricing plan designed mainly to keep our competitive hiring position in the industry, the repricing of options granted to Mr. Gerstel was approved. The first tranche of 1,161,834 options was adjusted to have an exercise price per of \$1.08 (which is equal to the weighted average price of our ordinary shares on Nasdaq in the last 90 days prior to the date of approval of the repricing plan by our board of directors) (the "Adjusted Exercise Price"), and the second tranche of 1,161,834 options was adjusted to have an exercise price per share equal to \$1.41, which is 130% of the Adjusted Exercise Price.

For the purpose of Mr. Gerstel's employment agreement, "Transaction" means the occurrence and closing, in a single transaction or in a series of related transactions, of any one or more of the following events pursuant to the approval or recommendation of the Board of Directors: (i) a sale or other disposition of 90% or more of the consolidated assets of the Company and its subsidiaries; (ii) a sale or other disposition of 90% or more of the outstanding securities of the Company resulting in a Change of Control; or (iii) a merger, consolidation or similar transaction involving 90% or more of the outstanding securities of the Company, resulting in a Change of Control.

"Change of Control" will occur if any person or "group" of persons becomes the "beneficial owner" (as such terms are used for purposes of Section 13(d) of the U.S. Securities Exchange Act of 1934, as amended), directly or indirectly, of 35% or more of the outstanding share capital of the Company, excluding a reorganization resulting in the Company being held by an entity beneficially owned by the holders of the Company's share capital immediately prior to the transaction or any Change in Board Event (as defined below).

"Change in Board Event" shall mean any time at which individuals who, as of April 2, 2017, constitute the board of directors (the "Incumbent Board") cease for any reason to constitute at least a majority of the board of directors; provided, however, that any individual becoming a director subsequent to April 2, 2017 whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened (in writing) election contest with respect to the election or removal of directors or other actual or threatened (in writing) solicitation of proxies or consents by or on behalf of a person other than the board of directors.

The agreement also includes customary covenants regarding confidentiality, IP assignment, non-competition and non-solicitation.

The employment term is for an indefinite period. During the first 24 months of employment, we may terminate the employment upon nine months' prior notice and Mr. Gerstel may resign upon six months' prior notice. Thereafter, we may terminate the employment upon 12 months' prior notice and Mr. Gerstel may resign upon nine months' prior notice. During the notice period, Mr. Gerstel will be entitled to all benefits under the employment agreement, including the continued vesting of stock options, even if the Company's waives its right to continued service. In the event of termination for "Cause" (as defined in the employment agreement), we may terminate the employee without prior notice.

We also have employment agreements with our other executive officers. These agreements usually do not contain any change of control provisions and otherwise contain salary, benefit and non-competition provisions that we believe to be customary in our industry.

## **C. BOARD PRACTICES**

### **Corporate Governance Practices**

We are incorporated in Israel and therefore are subject to various corporate governance practices under the Companies Law, relating to such matters as external directors, the audit committee, the internal auditor and approvals of interested party transactions. These matters are in addition to the ongoing listing conditions of NASDAQ and other relevant provisions of U.S. securities laws. Under the NASDAQ Listing Rules, a foreign private issuer may generally follow its home country rules of corporate governance in lieu of the comparable NASDAQ requirements, except for certain matters such as composition and responsibilities of the audit committee. For further information, see "Item 16.G – Corporate Governance."

## **NASDAQ Requirements**

As required by the NASDAQ Listing Rules, a majority of our directors are “independent directors” as defined in the NASDAQ Listing Rules.

As contemplated by the NASDAQ Listing Rules, we have an audit committee, a compensation committee and a nominating and governance committee, all of whose members are independent directors.

See Item “16.G – Corporate Governance” for exemptions that we have taken from certain NASDAQ Listing Rule requirements.

## **Israeli Companies Law**

### Board of Directors

According to the Companies Law and our articles of association, our board of directors is responsible, among other things, for:

- establishing our policies and overseeing the performance and activities of our chief executive officer;
- convening shareholders’ meetings;
- approving our financial statements;
- determining our plans of action, principles for funding them and the priorities among them, our organizational structure and examining our financial status; and
- issuing securities and distributing dividends.

Our board of directors may exercise all powers and may take all actions that are not specifically granted to our shareholders. Our board of directors also appoints and may remove our chief executive officer and may appoint or remove other executive officers, subject to any rights that the executive officers may have under their employment agreements.

As of March 12, 2018, our board of directors consists of six directors, two of whom qualify as "external directors" under Israeli law and have also been determined by our board of directors to qualify as "independent directors" for the purpose of the NASDAQ Listing Rules. Other than external directors, who are subject to special election requirements under Israeli law, our directors are elected in three staggered classes by the vote of a majority of the ordinary shares present and entitled to vote at meetings of our shareholders at which directors are elected. The members of only one staggered class will be elected at each annual meeting for a three-year term, so that the regular term of only one class of directors expires annually. Our annual meeting of shareholders is required to be held at least once during every calendar year and not more than fifteen months after the last preceding meeting. At our 2015 annual meeting of shareholders, held on December 31, 2015, Mr. Roy Gen was elected as a director for a three-year term. At an extraordinary general meeting of our shareholders, held on August 24, 2015, Mr. Avichay Nissenbaum was reelected to serve as an external director for a third three-year term commencing on September 27, 2015. At our 2016 annual meeting of shareholders, held on January 5, 2017, Ms. Sarit Firon was elected as an external director, effective as of January 6, 2017. At our 2017 annual meeting of shareholders, held on February 15, 2018, Mr. Michael Vorhaus was elected as a director for a three-year term. In addition, in our 2016 annual meeting of shareholders, Messrs. Alan Gelman and Dror Erez were each elected as a director for a three-year term. The external directors are not assigned to a class and are elected in accordance with the Companies Law.

If the number of directors constituting our board of directors is changed, any increase or decrease shall be apportioned among the classes so as to maintain the number of directors in each class as nearly equal as possible, but in no case will a decrease in the number of directors constituting our board of directors reduce the term of any then current director.

Our board of directors may appoint any other person as a director, whether to fill a vacancy or as an addition to the then current number of directors, provided that the total number of directors shall not, at any time, exceed seven directors. Any director so appointed shall hold office until the annual meeting of shareholders at which the term of his class expires, unless otherwise determined by our board of directors. There is no limitation on the number of terms that a non-external director may serve.

Shareholders may remove a non-external director from office by a resolution passed at a meeting of shareholders by a vote of the holders of more than two-thirds of our voting power.



A resolution proposed at any meeting of our board of directors is deemed adopted if approved by a majority of the directors present and voting on the matter. Under the Companies Law, our board of directors must determine the minimum number of directors having financial and accounting expertise, as defined in the regulations that our board of directors should have. In determining the number of directors required to have such expertise, the board of directors must consider, among other things, the type and size of the company and the scope and complexity of its business and operations. Our board of directors has determined that we require at least one director with the requisite financial and accounting expertise and that Ms. Sarit Firon has such expertise.

Under the Companies Law, a person, who is, directly or indirectly subordinated to the chief executive officer of a public company, may not serve as the chairman of its board of directors. In addition, neither the chief executive officer nor his relative is eligible to serve as chairman of the board of directors (and vice versa), unless such nomination was approved by a majority of the company's shareholders for a term not exceeding three years, and either: (i) such majority included the majority of the voting shareholders (shares held by abstaining shareholders are not considered) which are not controlling shareholders and have not personal interest regarding the decision; or (ii) the aggregate number of shares voting against the proposal did not exceed 2% of company voting shareholders. The term can be extended for additional three year terms, in the same manner.

#### External Directors

Under the Companies Law, Israeli companies whose shares have been offered to the public in or outside of Israel are required to appoint at least two individuals to serve as external directors. Our external directors under the Companies Law are Mr. Avichay Nissenbaum, whose third three-year term commenced on September 27, 2015, and Ms. Sarit Firon, whose initial three-year term commenced on January 6, 2017.

External directors are required to possess independence and professional qualifications as set out in the Companies Law and regulations promulgated thereunder. Each committee of a company's board of directors that is authorized to exercise any powers of the board of directors is required to include at least one external director. The audit committee and the compensation committee must include all the external directors.

External directors may be elected at our annual general meeting or a special meeting of our shareholders in a number and manner stipulated by the Companies Law, i.e., for an initial term of three years, which may be extended for two additional three-year terms (provided that the re-election for additional term was presented by the external director whose tenure is about to end or by the board of directors or by one or more shareholders that own, in the aggregate, 1% or more of the voting rights), and thereafter for additional three-year terms, if both the audit committee and the board of directors confirm that in light of the expertise and contribution of the external director, the extension of such external director's term would be in the interest of the Company. The election and re-election of external directors, requires the affirmative vote of a majority of the shares and in addition either that (i) a majority of the shares held by shareholders who are not controlling shareholders or a have personal interest in the election (other than a personal interest unrelated to the controlling shareholders) attending in person or represented by proxy have voted in favor of the proposal (shares held by abstaining shareholders are not considered) or (ii) the aggregate number of shares voting against the proposal held by such shareholders has not exceeded 2% of the company's voting shareholders. In the event a shareholder holding 1% or more of the voting rights or the external director proposed the reelection of the external director, the reelection has to be approved by a majority of the votes cast by the shareholders of the company, excluding the votes of controlling shareholders and those who have a personal interest in the matter as a result of their relations with the controlling shareholders, provided that the aggregate votes cast in favor of the reelection by such non-excluded shareholders constitute more than 2% of the voting rights in the company. External directors may be removed from office only under the following circumstances: (i) an external director ceases to meet the legal requirements for appointment as an external director or breaches his or her fiduciary duty to the company and a resolution to remove such external director is made by the shareholders at a meeting at which such external director is granted a reasonable opportunity to express his position (such a resolution requires the same majority of votes that elected the external director); (ii) an external director ceases to meet the legal requirements for appointment as an external director or breaches his or her fiduciary duty to the Company and a court orders that such director be removed; or (iii) an external director is unable to perform his or her duties or is convicted of certain felonies and a court orders that such director be removed. An external director is qualified for nomination as an external director, only if he/she has either professional qualifications or accounting and financial expertise. At least one of the external directors must have accounting and financial expertise. However, a company whose shares are traded in certain exchanges outside of Israel, including the NASDAQ Global Select Market, such as our company, is not required to nominate at least one external director who has accounting and financial expertise, as long as another independent director for audit committee purposes who has such expertise serves on the board of directors pursuant to the applicable foreign securities laws. In such case all external directors will have professional qualification. However, as noted above our board of directors has determined that we require at least one director with the requisite financial and accounting expertise and that Ms. Sarit Firon has such expertise.

An external director is entitled to compensation as provided in regulations under the Companies Law and is otherwise prohibited from receiving any other compensation, directly or indirectly from us. We do not have, nor do our subsidiaries have, any directors' service contracts granting to the directors any benefits upon termination of their service in their capacity as directors.

#### Committees of the Board of Directors

Our board of directors has established an audit committee, a compensation committee, an investment committee and a nominating and governance committee.

#### ***Audit Committee***

Our audit committee is comprised of Ms. Sarit Firon (Chairperson), Mr. Avichay Nissenbaum and Mr. Michael Vorhaus, and operates pursuant to a written charter.

#### *NASDAQ Requirements*

Under the listing requirements of the NASDAQ Stock Market, a foreign private issuer is required to maintain an audit committee that has certain responsibilities and authority. The NASDAQ Listing Rules require that all members of the audit committee must satisfy certain independence requirements, subject to certain limited exceptions. We have adopted an audit committee charter as required by the NASDAQ Listing Rules. Our audit committee assists the board of directors in fulfilling its responsibility for oversight of the quality and integrity of our accounting, auditing and financial reporting practices and financial statements. Our audit committee is also responsible for the establishment of policies and procedures for review and pre-approval by the committee of all audit services and permissible non-audit services to be performed by our independent auditor, in order to ensure that such services do not impair our auditor's independence. For more information see Item "16.C – Principal Accountant Fees and Services." Under the NASDAQ Listing Rules, the approval of the audit committee is also required to effect related-party transactions that would be required to be disclosed in our annual report.

#### *Companies Law Requirements*

Under the Companies Law, the board of directors of a public company must establish an audit committee. The audit committee must consist of at least three directors who meet certain independence criteria and must include all of the external directors. The chairperson of the audit committee must be an external director. The responsibilities of the audit committee under the Companies Law include to identify and address problems in the management of the company, review and approve interested party transactions, establish whistleblower procedures and procedures for considering controlling party transactions and oversee the company's internal audit system and the performance of the internal auditor.

#### ***Compensation Committee***

Our compensation committee is comprised of Mr. Avichay Nissenbaum (Chairperson), Mr. Michael Vorhaus and Ms. Sarit Firon, all of whom satisfy the respective "independence" requirements of the Companies Law, SEC and NASDAQ Listing Rules for compensation committee members. Our compensation committee meets at least once each quarter, with additional special meetings scheduled when required.

Our compensation committee is authorized to, among other things, review, approve and recommend to our board of directors base salaries, incentive bonuses, including the specific goals and amounts, stock option grants, employment agreements, and any other benefits, compensation or arrangements of our executive officers and directors. Pursuant to the Companies Law, our compensation committee must be comprised of at least three directors, include all of the external directors, its other members must satisfy certain independence standards under the Companies Law, and the chairman is required to be an external director. In addition, our compensation committee is required to propose for shareholder approval by a special majority, a compensation policy governing the compensation of office holders based on specified criteria, to review, from time to time, modifications to the said compensation policy and examine its implementation; and to approve the actual compensation terms of office holders prior to approval thereof by the board of directors. Our shareholders re-approved our Compensation Policy for Directors and Officers on January 5, 2017 and approved an amendment to such policy on February 15, 2018. Our compensation committee also oversees the administration of our equity based incentive plan.

#### ***Investment Committee***

Our investment committee is comprised of Mr. Alan Gelman (Chairperson), Ms. Sarit Firon, and Mr. Roy Gen. The Investment Committee is responsible for formulating the overall investment policies of the Company, and establishing investment guidelines in furtherance of those policies. The Committee monitors the management of the portfolio for compliance with the investment policies and guidelines and for meeting performance objectives over time as well as assist the board of directors in fulfilling its oversight responsibility for the investment of assets of the company.

## *Nominating and Governance Committee*

Our nominating and governance committee is comprised of Mr. Michael Vorhaus (Chairperson), Mr. Alan Gelman, and Mr. Avichay Nissenbaum, and operates pursuant to a written charter. It is responsible for making recommendations to the board of directors regarding candidates for directorships and the size and composition of the board. In addition, the committee is responsible for overseeing our corporate governance guidelines and reporting and making recommendations to the board concerning corporate governance matters. Under the Companies Law, nominations for director are generally made by our board of directors but may be made by one or more of our shareholders pursuant to applicable law and our articles of association.

## **Internal Auditor**

Under the Companies Law, the board of directors of a public company must appoint an internal auditor nominated based on the audit committee's recommendation. The role of the internal auditor is to examine whether a company's actions comply with the law and proper business procedure. The internal auditor may be an employee of the company employed specifically to perform internal audit functions but may not be an interested party or office holder, or a relative of any interested party or office holder, and may not be a member of the company's independent accounting firm or its representative. The Companies Law defines an interested party as a substantial shareholder of 5% or more of the shares or voting rights of a company, any person or entity that has the right to nominate or appoint at least one director or the general manager of the company or any person who serves as a director or as the general manager of a company. The internal auditor's term of office shall not be terminated without his or her consent, nor shall he or she be suspended from such position unless the board of directors has so resolved after hearing the opinion of the audit committee and after giving the internal auditor a reasonable opportunity to present his or her position to the board and to the audit committee. Our internal auditor is Mrs. Linur Dloomy, CPA, of Brightman Almagor Zohar & Co., a member of Deloitte Touche Tohmatsu.

## **D. EMPLOYEES**

The breakdown of our employees, by department, as of the end of each of the past three fiscal years is as follows:

	December 31,		
	2015	2016**	2017
Cost of sales	20	65	72
Research and development	221	132	106
Selling and marketing	277	228	203
General and administration	128	110	83
Total	646	535	464

\*\* reclassified

As of December 31, 2017, 157 of our employees were located in Israel, 226 of our employees were located in the United States and 81 employees were located in Europe.

In Israel we are subject to certain labor statutes and national labor court precedent rulings, as well as to some provisions of the collective bargaining agreements. These provisions of collective bargaining agreements apply to our Israeli employees by virtue of extension orders issued in accordance with relevant labor laws by the Israeli Ministry of Economy, and which apply such agreement provisions to certain or all Israeli employees including our employees even though they are not directly part of a union that has signed a collective bargaining agreement. The laws and labor court rulings that apply to our employees principally concern minimum wage laws, procedures for dismissing employees, determination of severance pay, leaves of absence (such as annual vacation or maternity leave), sick pay and other conditions for employment. The extension orders which apply to our employees principally concern the requirement for the length of the workday and the work-week, annual recuperation pay and commuting expenses, and payments to pension funds and other conditions for employment. The amount and frequency of these adjustments are modified from time to time. As mentioned above, we are required to insure all of our employees by a comprehensive pension plan or a managers' insurance according to the terms and the rates detailed in the order. In addition, Israeli law determines minimum wages for workers, minimum paid leave or vacation, sick leave, working hours and days of rest, insurance for work-related accidents, determination of severance pay, the duty to give notice of dismissal or resignation and other conditions of employment. We have never experienced a work stoppage, and we believe our relations with our employees are good.

Israeli law generally requires the payment of severance by employers upon the retirement or death of an employee or upon termination of employment by the employer or, in certain circumstances, by the employee. Most of our agreements with employees in Israel contain an arrangement made in accordance with Section 14 of the Severance Pay Law, 1963 (“Section 14”), where our contributions for severance pay are paid in lieu of any severance liability. Upon contribution of the full amount of the employee's monthly salary, and release of the policy to the employee, no additional severance payments are required to be made by us to the employee. Additionally, the related obligation and amounts deposited pursuant to such obligation are not stated on the balance sheet, as we are legally released from any obligation to employees once the deposit amounts have been paid. Our liability for severance pay to employees not under Section 14 is calculated pursuant to Israel’s Severance Pay Law based on the employees’ most recent monthly salaries, multiplied by the number of years of their employment, or a portion thereof, as of the balance sheet date. This liability is partially provided for by monthly deposits into accounts for the benefit of the employees and by an accrual. The deposited funds include profits (losses) accumulated up to the balance sheet date. As of December 31, 2017, our net accrued unfunded severance obligations totaled \$239.4 million.

Furthermore, Israeli employees and employers are required to pay predetermined sums to the National Insurance Institute, which covers, amongst other benefits, payments for state retirement benefits and survivor benefits (similar to the United States Social Security Administration), as well as state unemployment benefits. These amounts also include payments for national health insurance. The payments to the National Insurance Institute can equal up to approximately 19.5% of wages subject to a cap if an employee’s monthly wages exceed a specified amount, of which the employee contributes up to approximately 12% and the employer contributes approximately 7.5%.

## E. SHARE OWNERSHIP

### Security Ownership of Directors and Executive Officers

The following table sets forth information regarding the beneficial ownership of our ordinary shares as of March 12, 2018 by all of our directors and executive officers as a group and by each officer and director who beneficially owns 1% or more of our outstanding ordinary shares.

Beneficial ownership of shares is determined in accordance with the rules of the SEC and generally includes any shares over which a person exercises sole or shared voting or investment power. Ordinary shares that are subject to warrants, RSUs or stock options that are vested or will vest within 60 days of a specified date are deemed to be outstanding and beneficially owned by the person holding the stock options for the purpose of computing the percentage ownership of that person, but are not treated as outstanding for the purpose of computing the percentage of any other person.

Except as indicated in the footnotes to this table, each officer and director in the table has sole voting and investment power for the shares shown as beneficially owned by them. Percentage ownership is based on 77,550,069 ordinary shares outstanding as of March 12, 2018.

Name	Number of Ordinary Shares Beneficially Owned	Percentage of Ordinary Shares Outstanding
Dror Erez <sup>(1)</sup>	7,360,642	9.5%
All directors and officers as a group (13 persons) <sup>(2)</sup>	8,044,655	10.3%

(1) Based upon information provided to us by Mr. Erez. Includes options to purchase 44,999 ordinary shares that are vested or will vest, within 60 days of March 12, 2018. Mr. Erez serves as a director of the Company.

(2) Includes options to purchase 729,012 ordinary shares, that are vested or will vest within 60 days of March 12, 2018.

### Employee Benefit Plans

The Incentive Plan, our current equity incentive plan, was initially adopted in 2003, providing certain tax benefits in connection with share-based compensation under the tax laws of Israel and the United States. The term of the Incentive Plan will expire on December 9, 2022. Please also see Note 12 to our Financial Statements for information on the options issued under the Incentive Plan.

Under the Incentive Plan, as amended from time to time, we may grant to our directors, officers, employees, consultants, advisers, service providers and controlling shareholders options to purchase our ordinary shares, restricted shares and RSUs. As of December 31, 2017, a total of 13,462,749 ordinary shares were subject to the Incentive Plan. As of March 12, 2018, options to purchase a total of 13,352,484 ordinary shares were outstanding under our Incentive Plan, of which options to purchase a total of 5,955,380 ordinary shares were held by our directors and officers (13 persons) as a group. The outstanding options are exercisable at purchase prices which range from \$0.34 to \$12.64 per share. Any expired or cancelled options are available for reissuance under the Incentive Plan.

Our Israeli employees and directors may be granted awards under Section 102 (“Section 102”) of the Israeli Income Tax Ordinance (the “Tax Ordinance”), which provides them with beneficial tax treatment, and non-employees (such as service providers, consultants and advisers) and controlling shareholders may only be granted awards under another section of the Tax Ordinance, which does not provide for similar tax benefits. To be eligible for tax benefits under Section 102, the securities must be issued through a trustee, and if held by the trustee for the minimum required period, the employees and directors are entitled to defer any taxable event with respect to the award until the earlier of (i) the transfer of securities from the trustee to the employee or director or (ii) the sale of securities to a third party. Our board of directors has resolved to elect the “Capital Gains Route” (under Section 102) for the grant of awards to Israeli grantees under the Incentive Plan. Based on such election, and subject to the fulfillment of the conditions of Section 102, under the Capital Gains Route, gains realized from the sale of shares issued pursuant to the Incentive Plan will generally be taxed at the capital gain rate of 25%, provided the trustee holds the securities for 24 months following the date of grant of the award. To the extent that the market price of the ordinary shares at the time of grant exceeds the exercise price of the award or if the conditions of Section 102 are not met, tax will be payable at the time of sale at the marginal income tax rate applicable to the employee or director (up to 50% in 2017). We are not entitled to recognize a deduction for Israeli tax purposes on the capital gain recognized by the award holder upon the sale of shares pursuant to Section 102. The voting rights of any shares held by the trustee under Section 102 remain with the trustee.

The Incentive Plan contains a U.S. addendum that provides for the grant of awards to U.S. citizens and resident aliens of the United States for U.S. tax purposes. Pursuant to the approval of our board of directors and shareholders, stock options granted to U.S. citizens and resident aliens may be either incentive stock options under the Code or options that do not qualify as incentive stock options. Subject to the fulfillment of the conditions of the Code, an incentive stock option may provide tax benefits to the holder in that it converts ordinary income into income taxed at long-term capital gain rates and defers the tax until the sale of the underlying share. In that event, we would not recognize a tax deduction with respect to such capital gain.

Our board of directors has the authority to administer, and to grant awards, under the Incentive Plan. However, the compensation committee appointed by the board provides recommendations to the board with respect to the administration of the plan. Generally, RSUs and options granted under the Incentive Plan vest in two or three installments on each anniversary of the date of grant.

See “Item 6.B Compensation” for a description of awards granted under the Incentive Plan to our directors and officers in 2013.

## **ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS**

### **A. MAJOR SHAREHOLDERS**

The following table sets forth information regarding the beneficial ownership of our ordinary shares as of March 12, 2018 by each person or group of affiliated persons that we know beneficially owns more than 5% of our outstanding ordinary shares. Other than with respect to our directors and officers, we have relied on public filings with the SEC.

Beneficial ownership of shares is determined in accordance with the Exchange Act and the rules promulgated thereunder, and generally includes any shares over which a person exercises sole or shared voting or investment power. Ordinary shares that are issuable upon the exercise of warrants, RSUs or stock options that are vested or will vest within 60 days of a specified date are deemed to be outstanding and beneficially owned by the person holding the stock options or warrants for the purpose of computing the percentage ownership of that person, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person.

Except as indicated in the footnotes to this table, to our knowledge, each shareholder in the table has sole voting and investment power for the shares shown as beneficially owned by such shareholder. Our major shareholders do not have different voting rights than our other shareholders.

Name	Number of Ordinary Shares Beneficially Owned	Percentage of Ordinary Shares Outstanding (1)
Benchmark Israel II, L.P. and affiliates (2)	9,571,772	12.34%
Ronen Shilo (3)	7,508,847	9.68%
Dror Erez (4)	7,360,642	9.5%
Zack and Orli Rinat (5)	6,484,347	8.36%
J.P. Morgan Investment Management Inc. (6)	4,203,067	5.41%

(1) Based upon 77,550,069 ordinary shares outstanding as of March 12, 2018.

(2) Based solely upon, and qualified in its entirety with reference to, a Schedule 13G/A filed with the SEC on February 5, 2018, by Benchmark Israel II, L.P. (“BI II”) and affiliates. BCPI Partners II, L.P. (“BCPI-P”), the general partner of BI II, may be deemed to have sole power to vote and dispose of the 9,293,742 shares directly held by BI II. BCPI Corporation II (“BCPI-C”), the general partner of BCPI-P, may be deemed to have sole power to vote and dispose of the shares directly held by BI II. Michael A. Eisenberg and Arad Naveh, the directors of BCPI-C, may be deemed to have shared power to vote and dispose of the shares directly held by BI II. 282,882 shares are held in nominee form for the benefit of persons associated with BCPI-C. BCPI-P may be deemed to have sole power to vote and dispose of these shares, BCPI-C may be deemed to have sole power to vote and dispose of these shares and Messrs. Eisenberg and Naveh may be deemed to have shared power to vote and dispose of these shares. The Address of Benchmark is 2965 Woodside Road Woodside, California 94062s.

(3) Based on a Schedule 13D/A filed with the SEC on May 31, 2017. The Address of Mr. Shilo is Ronen Shilo c/o Conduit Ltd., 2 Ilan Ramon St. Ness-Ziona 7403635, Israel.

(4) Based upon information provided to us by Mr. Erez. Includes options to purchase 44,999 ordinary shares that are vested or will vest, within 60 days of March 12, 2018. Mr. Erez serves as a director of the Company. The Address of Mr. Erez is Dror Erez c/o Conduit Ltd., 2 Ilan Ramon St. Ness-Ziona 7403635, Israel.

(5) Based solely upon, and qualified in its entirety with reference to, a Schedule 13G filed with the SEC on January 16, 2014, by Zack and Orli Rinat. The Ordinary Shares are held by Zack Rinat and Orli Rinat as community property. The address of Zack and Orli Rinat is 26319 Esperanza Drive Los Altos Hills, CA.

(6) Consists of 4,203,067 ordinary shares directly held by Project Condor LLC (“Condor”). PEG Digital Growth Fund L.P. (“DGF”) owns 98.75% of the membership interests of Condor. As the holder of the majority of the membership interests of Condor, DGF manages Condor and has shared voting or dispositive power over the 4,203,067 ordinary shares held by Condor. J.P. Morgan Investment Management Inc. (“JPMIM”) serves as investment advisor to DGF. Based upon, and qualified in its entirety with reference to, a Schedule 13G/A filed with the SEC on December 11, 2017, by JPMIM, DGF, and Condor. The address for JPMIM, DGF and Condor is 320 Park Avenue, New York, New York 1002.

To our knowledge, there has not been any significant changes in the percentage of ownership held by our major shareholders during the past three years preceding the date of this annual report on Form 20-F.

To our knowledge, as of March 12, 2018, we had 11 shareholders of record of which 9 (excluding the Depository Trust Company) were registered with addresses in the United States. These U.S. holders were, as of such date, the holders of record of approximately 5.18% of our outstanding shares. The number of record holders in the United States is not representative of the number of beneficial holders nor is it representative of where such beneficial holders are resident since many of these ordinary shares were held of record by brokers or other nominees.

## B. RELATED PARTY TRANSACTIONS

It is our policy that transactions with office holders or transactions in which an office holder has a personal interest will be on terms that, on the whole, are no less favorable to us than could be obtained from independent parties.

See “Item 10.B Memorandum and Articles of Association — Approval of Related Party Transactions” for a discussion of the requirements of Israeli law regarding special approvals for transactions involving directors, officers or controlling shareholders.

The following is a description of some of the transactions with related parties to which we are party and which were in effect within the past three fiscal years. The descriptions provided below are summaries of the terms of such agreements and do not purport to be complete and are qualified in their entirety by the complete agreements.

## **Agreement with Conduit Shareholders**

As a condition precedent to the closing of ClientConnect Acquisition on January 2, 2014, Conduit spun off its ClientConnect business. As a result of the ClientConnect Acquisition, two office holders of Conduit – Dror Erez and Roy Gen – became members of our Board of Directors and the major shareholders of Conduit also became major shareholders of the Company. For information about a registration rights agreement we entered into in connection with the ClientConnect Acquisition, see Item 10.C “Additional Information—Material Contracts—Agreements Relating to the ClientConnect Acquisition.” Such directors and major shareholders are parties to such agreement.

## **Indemnification Agreements**

Our articles of association permit us to exculpate, indemnify and insure our directors and officeholders to the fullest extent permitted by the Companies Law. We have obtained directors’ and officers’ insurance for each of our officers and directors and have entered into indemnification agreements with all of our current officers and directors.

We have entered into indemnification and exculpation agreements with each of our current office holders and directors exculpating them to the fullest extent permitted by the law and our articles of association and undertaking to indemnify them to the fullest extent permitted by the law and our articles of association, including with respect to liabilities resulting from this annual report, to the extent such liabilities are not covered by insurance. See also “Item 10B. — Exculpation, Insurance and Indemnification of Directors and Officers.” in this annual report on Form 20-F.

## **Employment and Consulting Agreements**

We have or have had employment, consulting or related agreements with each member of our senior management. For more information on employment and consulting agreements see “Item 6B. — Compensation” in this annual report on Form 20-F.

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

Not applicable.

## **ITEM 8. FINANCIAL INFORMATION**

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

Our Financial Statements are included in this annual report pursuant to Item 18.

### ***Legal Proceedings***

On November 7, 2012, we entered into a Share Purchase Agreement with SweetIM Ltd., SweetIM Technologies Ltd., the shareholders of SweetIM and Nadav Goshen, as Shareholders’ Agent, according to which we purchased 100% of the issued and outstanding shares of SweetIM Ltd. Under the terms of the Share Purchase Agreement, among other things, a third payment of up to \$7.5 million in cash was due in May 2014, if certain milestones were met. The milestones are based on our revenues in the fiscal year of 2013 and the absence of certain changes in the industry in which we operate. We believe that that the terms of the Share Purchase Agreement require us to pay only \$2.5 million with respect to the contingent payment, which we have paid. However, the Shareholders’ Agent has demanded payment of an additional \$5.0 million. We believe that the claim is without merit and we are defending against it vigorously. Until this dispute is resolved, we will maintain the \$5.0 million liability in our financial statements that we recorded at the time that we entered into the Share Purchase Agreement. In April 2015, pursuant to the Share Purchase Agreement, an arbitration process with respect to this claim was commenced in Israel and is still ongoing.

On December 22, 2015, Adtile Technologies Inc. (“Adtile”) filed a lawsuit against Perion and its wholly-owned subsidiary, Intercept Interactive Inc. (“Intercept”) in the United States District Court for the District of Delaware. The lawsuit alleges various causes of action against Perion and Intercept related to Intercept’s alleged unauthorized use and misappropriation of Adtile’s proprietary information and trade secrets. Adtile is seeking injunctive relief and unspecified monetary damages. We are unable to predict the outcome or range of possible loss at this stage. On June 23, 2016, the court denied Adtile’s motion for a preliminary injunction. On June 24, 2016, the court (i) granted Perion’s motion to dismiss and (ii) granted Intercept’s motion to stay the action and compel arbitration. As of the date of this report, Adtile had not commenced an arbitration proceeding and the court dismissed the case for administrative reasons. We believe that we have strong defenses against this lawsuit and we intend to defend against it vigorously if the case is ever resubmitted.

### ***Policy on Dividend Distribution***

It is currently our policy not to distribute dividends.

### **B. SIGNIFICANT CHANGES**

Since the date of our audited Financial Statements incorporated by reference in this report, there have not been any significant changes other than as set forth in note 20 to our Financial Statements."

## ITEM 9. THE OFFER AND LISTING

### A. OFFER AND LISTING DETAILS

Our ordinary shares have been listed on the NASDAQ Capital Market from January 31, 2006 to June 26, 2007, on the NASDAQ Global Market from June 27, 2007 to December 31, 2013, and on the NASDAQ Global Select Market since January 2, 2014. Our ordinary shares commenced trading on the TASE on December 4, 2007. Our trading symbol on NASDAQ is “PERI” and on TASE is “PERION.”

The following table shows, for the periods indicated, the high and low market prices of our ordinary shares as reported on the NASDAQ and the TASE. The TASE prices have been translated from NIS to dollars based on the exchange rate between the NIS and the dollar, as quoted by the Bank of Israel with respect to the date of the applicable high or low market price on the TASE.

	NASDAQ		TASE	
	High (\$)	Low (\$)	High (\$)	Low (\$)
<b>Five most recent full financial years</b>				
2017	2.38	0.88	2.30	0.91
2016	3.25	0.94	3.71	0.95
2015	4.52	2.05	4.56	2.06
2014	14.33	4.26	14.33	4.31
2013	14.94	8.19	14.90	8.21
<b>Financial quarters during the past two recent full financial years and any subsequent period</b>				
Fourth Quarter 2017	1.34	0.88	1.32	0.91
Third Quarter 2017	1.96	1.01	1.95	1.03
Second Quarter 2017	2.06	1.30	2.00	1.36
First Quarter 2017	2.38	1.43	2.30	1.41
Fourth Quarter 2016	1.47	0.94	1.43	0.95
Third Quarter 2016	1.49	1.07	1.51	1.09
Second Quarter 2016	2.05	1.01	2.01	1.05
First Quarter 2016	3.25	1.98	3.71	1.99
<b>Most recent six months</b>				
February 2018	1.07	0.94	0.95	1.03
January 2018	1.15	1.00	1.04	1.12
December 2017	1.10	0.91	1.06	0.91
November 2017	1.11	0.88	1.11	0.97
October 2017	1.34	0.96	1.32	1.03
September 2017	1.24	1.01	1.19	1.03

The closing prices of our ordinary shares, as reported on the NASDAQ and on the TASE on March 12, 2018, were \$0.84 and NIS 2.93 (equal to \$2.90 based on the exchange rate between the NIS and the dollar, as quoted by the Bank of Israel on March 12, 2018), respectively.

### B. PLAN OF DISTRIBUTION

Not applicable.

### C. MARKETS

Our ordinary shares are quoted on the NASDAQ Global Select Market under the symbol “PERI,” and on TASE under the symbol “PERION.”

### D. SELLING SHAREHOLDERS

Not applicable.

### E. DILUTION

Not applicable.

### F. EXPENSES OF THE ISSUE

Not applicable.



## **ITEM 10. ADDITIONAL INFORMATION**

### **A. SHARE CAPITAL**

Not applicable

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

#### **Registration Number and Purposes**

Our registration number with the Israeli Companies Registrar is 51-284949-8. Pursuant to Section 3 of our articles of association, our objectives are the development, manufacture and marketing of software and any other objective as determined by our board of directors.

#### **Authorized Share Capital**

Our authorized share capital is of NIS 1,200,000, divided into 120,000,000 ordinary shares, par value NIS 0.01 per share.

#### **The Board of Directors**

Under the Companies Law and our articles of association, our board of directors may exercise all powers and take all actions that are not required under the Companies Law or under our articles of association to be exercised or taken by another corporate body, including the power to borrow money for the purposes of our Company. Our directors are not subject to any age limit requirement, nor are they disqualified from serving on our board of directors because of a failure to own a certain amount of our shares. For more information about our Board of Directors, see Item 6.C "Board Practices."

#### **Dividend and Liquidation Rights**

The holders of the ordinary shares are entitled to their proportionate share of any cash dividend, share dividend or dividend in kind declared with respect to our ordinary shares on or after the date of this annual report. We may declare dividends out of profits legally available for distribution. Under the Companies Law, a company may distribute a dividend only if the distribution does not create a reasonable risk that the company will be unable to meet its existing and anticipated obligations as they become due. Furthermore, a company may only distribute a dividend out of the company's profits, as such are defined under the Companies Law. If the company does not meet the profit requirement, a court may allow it to distribute a dividend, as long as the court is convinced that there is no reasonable risk that such distribution might prevent the company from being able to meet its existing and anticipated obligations as they become due.

Under the Companies Law, the declaration of a dividend does not require the approval of the shareholders of a company unless the company's articles of association provide otherwise. Our articles of association provide that the board of directors may declare and distribute dividends without the approval of the shareholders. In the event of our liquidation, holders of our ordinary shares have the right to share ratably in any assets remaining after payment of liabilities, in proportion to the paid-up par value of their respective holdings.

These rights may be affected by the grant of preferential liquidation or dividend rights to the holders of a class of shares that may be authorized in the future.

#### **Voting, Shareholder Meetings and Resolutions**

Holders of ordinary shares have one vote for each ordinary share held on all matters submitted to a vote of shareholders. This right may be changed if shares with special voting rights are authorized in the future.

Our articles of association and the laws of the State of Israel (subject to anti-terror legislations) do not restrict the ownership or voting of ordinary shares by non-residents of Israel.

Under the Companies Law, an annual meeting of our shareholders should be held once every calendar year, but no later than 15 months from the date of the previous annual meeting. The quorum required under our articles of association for a general meeting of shareholders consists of at least two shareholders present in person or by proxy holding in the aggregate at least 33-1/3% of the voting power. According to our articles of association a meeting adjourned for lack of a quorum generally is adjourned to the same day in the following week at the same time and place or any time and place as the chairperson of the board of directors designates in a notice to the shareholders with the consent of the holders of the majority voting power represented at the meeting voting on the question of adjournment. In the event of a lack of quorum in a meeting convened upon the request of shareholders, the meeting shall be dissolved. At the adjourned meeting, if a legal quorum is not present after 30 minutes from the time specified for the commencement of the adjourned meeting, then the meeting shall take place regardless of the number of members present and in such event the required quorum shall consist of any number of shareholders present in person or by proxy.

Our board of directors may, in its discretion, convene additional meetings as “Extraordinary general meetings.” Extraordinary general meetings may also be convened upon shareholder request in accordance with the Companies Law and our articles of association. The chairperson of our board of directors presides at each of our general meetings. The chairperson of the board of directors is not entitled to a vote at a general meeting in his capacity as chairperson.

Most shareholders’ resolutions, including resolutions to:

- amend our articles of association (except as set forth below) or our memorandum of association;
- make changes in our capital structure such as a reduction of capital, increase of capital or share split, merger or consolidation;
- authorize a new class of shares;
- elect directors, other than external directors; or
- appoint auditors

will be deemed adopted if approved by the holders of a majority of the voting power represented at a shareholders’ meeting, in person or by proxy, and voting on that resolution. Except as set forth in the following sentence none of these actions require the approval of a special majority. Amendments to our articles of association relating to the election and vacation of office of directors and the composition and size of the board of directors require the approval at a general meeting of shareholders holding more than two-thirds of the voting power of the issued and outstanding share capital of the company.

#### **Notices**

Under the Companies Law, shareholders’ meetings generally require prior notice of at least 21 days, or 35 in the event that the issue(s) to be resolved is an issue subject to the Israeli proxy rules.

#### **Modification of Class Rights**

The Companies Law provides that, unless otherwise provided by the articles of association, the rights of a particular class of shares may not be adversely modified without the vote of a majority of the affected class at a separate class meeting.

#### **Election of Directors**

Our ordinary shares do not have cumulative voting rights in the election of directors. Therefore, the holders of ordinary shares representing more than 50% of the voting power at the general meeting of the shareholders, in person or by proxy, have the power to elect all of the directors whose positions are being filled at that meeting, to the exclusion of the remaining shareholders. The election and re-election of external directors, requires the affirmative vote of a majority of the shares and in addition either that (i) a majority of the shares held by shareholders who are not controlling shareholders or a have personal interest in the election (other than a personal interest unrelated to the controlling shareholders) attending in person or represented by proxy have voted in favor of the proposal (shares held by abstaining shareholders are not be considered) or (ii) the aggregate number of shares voting against the proposal held by such shareholders has not exceeded 2% of the company’s voting shareholders. In the event a shareholder holding 1% or more of the voting rights or the external director proposed the reelection of the external director, the reelection has to be approved by a majority of the votes cast by the shareholders of the company, excluding the votes of controlling shareholders and those who have a personal interest in the matter as a result of their relations with the controlling shareholders, provided that the aggregate votes cast in favor of the reelection by such non-excluded shareholders constitute more than 2% of the voting rights in the company.

See “Item 6.C Board Practices” regarding our staggered board.

#### **Transfer Agent and Registrar**

American Stock Transfer and Trust Company is the transfer agent and registrar for our ordinary shares.

#### **Approval of Related Party Transactions**

##### ***Office Holders***

The Companies Law codifies the fiduciary duties that office holders owe to a company. An office holder is defined in the Companies Law as any general manager, chief business manager, deputy general manager, vice general manager, or any other person assuming the responsibilities of any of these positions regardless of that person’s title, as well as a director, or a manager directly subordinate to the general manager.

*Fiduciary duties.* An office holder's fiduciary duties consist of a duty of loyalty and a duty of care. The duty of loyalty requires the office holder to act in good faith and to the benefit of the company, to avoid any conflict of interest between the office holder's position in the company and any other of his or her positions or personal affairs, and to avoid any competition with the company or the exploitation of any business opportunity of the company in order to receive personal advantage for himself or others. This duty also requires him or her to reveal to the company any information or documents relating to the company's affairs that the office holder has received due to his or her position as an office holder. The duty of care requires an office holder to act with a level of care that a reasonable office holder in the same position would employ under the same circumstances. This includes the duty to use reasonable means to obtain information regarding the advisability of a given action submitted for his or her approval or performed by virtue of his or her position and all other relevant information pertaining to these actions.

*Compensation.* Pursuant to the Companies Law, the compensation policy must be approved by the company's board of directors after reviewing the recommendations of the compensation committee. The compensation policy also requires the approval of the general meeting of the shareholders, which approval must satisfy one of the following (the "Majority Requirement"): (i) the majority should include at least a majority of the shares of the voting shareholders who are non-controlling shareholders or do not have a personal interest in the approval of the compensation policy (in counting the total votes of such shareholders, abstentions are not be taken into account) or (ii) the total number of votes against the proposal among the shareholders mentioned in paragraph (i) does not exceed two percent of the aggregate voting power in the company. Under certain circumstances and subject to certain exceptions, the board of directors may approve the compensation policy despite the objection of the shareholders, provided that the compensation committee and the board of directors determines that it is for the benefit of the company, following an additional discussion and based on detailed arguments.

The Companies Law provides that the compensation policy must be re-approved (and re-considered) every three years, in the manner described above. Moreover, the board of directors is responsible for reviewing from time to time the compensation policy and deciding whether or not there are any circumstances that require an adjustment to the company's compensation policy. When approving the compensation policy, the relevant organs must take into consideration the goals and objectives listed in the Companies Law, and include reference to specific issues listed in the Companies Law. Such issues include, among others (the "Compensation Policy Mandatory Criteria"): (i) the relevant person's education, qualifications, professional experience and achievements; (ii) such person's position within the company, the scope of his responsibilities and previous compensation arrangements with the company; (iii) the proportionality of the employer cost of such person in relation to the employer cost of other employees of the company, and in particular, the average and median pay of other employees in the company, including contract workers, and the impact of the differences between such person's compensation and the other employees' compensation on the labor relations in the company; (iv) the authority, at the board of director's sole discretion, to lower any variable compensation components or set a maximum limit (cap) on the actual value of the non-cash variable components, when paid; and (v) in the event that the terms of engagement include any termination payments - the term of employment of the departing person, the company's performance during that term, and the departing person's contribution to the performance of the company.

In addition, the Companies Law provides that the following matters must be included in the compensation policy (the "Compensation Policy Mandatory Provisions"): (i) other than with respect to officers reporting to the chief executive officer, the award of variable components must be based on long term and measurable performance criteria (other than non-material variable components, which may be based on non-measurable criteria taking into account the relevant person's contribution to the performance of the company); (ii) the company must set a ratio between fixed and variable pay, set a cap on the payment of any cash variable compensation components as of the payment of such components, and set a cap on the maximum cash value all non-cash variable components as of their grant date; (iii) the compensation policy must include a provision requiring the relevant person to return to the company any compensation that was awarded on the basis of financial figures that were subsequently restated; (iv) equity based variable compensation components should have an appropriate minimum vesting periods, which should be linked to long term performance objectives; and (v) the company must set a clear limit on termination payments.

Pursuant to the Companies Law, any transaction with an office holder (except directors and the chief executive officer of the company) with respect to such office holder's compensation arrangements and terms of engagement, requires the approval of the compensation committee and the board of directors. Such transaction must be consistent with the provisions of the company's compensation policy, provided that the compensation committee and the board of directors may, under special circumstances, approve such transaction that is not in accordance with the company's compensation policy, if both of the following conditions are met: (i) the compensation committee and the board of directors discussed the transaction in light of the roles and objectives of the compensation committee and after taking into consideration the Compensation Policy Mandatory Criteria and including in such transaction the Compensation Policy Mandatory Provisions; and (ii) the company's shareholders approved the transaction, provided that in public companies the approval must satisfy the Majority Requirement. Notwithstanding the above, the compensation committee and the board of directors may, under special circumstances, approve such transaction even if the shareholders' meeting objected to its approval, provided that (i) both the compensation committee and the board of directors re-discussed the transactions and decided to approve it despite the shareholder's objection, based on detailed arguments, and (ii) the company is not a 'Public Pyramid Held Company'. For the purpose hereof, a "Public Pyramid Held Company" is a public company that is controlled by another public company (including companies that issued only debentures to the public), which is also controlled by another public company (including companies that issued only debentures to the public) that has a controlling shareholder.

Transactions between public companies (including companies that have issued only debentures to the public) and their chief executive officer, with respect to his or her compensation arrangement and terms of engagement, require the approval of the compensation committee, the board of directors and the shareholder's meeting, provided that the approval of the shareholders' meeting must satisfy the Majority Requirement. Notwithstanding the above, the compensation committee and the board of directors may, under special circumstances, approve such transaction with the chief executive officer even if the shareholders' meeting objected to its approval, provided that (i) both the compensation committee and the board of directors re-discussed the transactions and decided to approve it despite the shareholder's objection, based on detailed arguments, and (ii) the company is not a Public Pyramid Held Company. Such transaction with the chief executive officer must be consistent with the provisions of the company's compensation policy, provided that the compensation committee and the board of directors may, under special circumstances, approve such transaction that is not in accordance with the company's compensation policy, if both of the following conditions are met: (i) the compensation committee and the board of directors discussed the transaction in light of the roles and objectives of the compensation committee and after taking into consideration the Compensation Policy Mandatory Criteria and including in such transaction the Compensation Policy Mandatory Provisions; and (ii) the company's shareholders approved the transaction, provided that in public companies the approval must satisfy the Majority Requirement. In addition, the compensation committee may determine that such transaction with the CEO does not have to be approved by the shareholders of the company, provided that: (i) the chief executive officer is independent based on criteria set forth in the Companies Law; (ii) the compensation committee determined, based on detailed arguments, that bringing the transaction to the approval of the shareholders may compromise the chances of entering into the transaction; and (iii) the terms of the transaction are consistent with the provisions of the company's compensation policy. Under the Companies Law, non-material amendments of transactions relating to the compensation arrangement or terms of engagement of office holders (including the chief executive officer), require only the approval of the compensation committee.

With respect to transactions relating to the compensation arrangement and terms of engagements of directors in public companies (including companies that have issued only debentures to the public), the Companies Law provides that such transaction is subject to the approval of the compensation committee, the board of directors and the shareholders' meeting. Such transaction must be consistent with the provisions of the company's compensation policy, provided that the compensation committee and the board of directors may, under special circumstances, approve such transaction that is not in accordance with the company's compensation policy, if both of the following conditions are met: (i) the compensation committee and the board of directors discussed the transaction in light of the roles and objectives of the compensation committee and after taking into consideration the Compensation Policy Mandatory Criteria and including in such transaction the Compensation Policy Mandatory Provisions; and (ii) the company's shareholders approved the transaction, provided that in public companies the approval must satisfy the Majority Requirement.

Our compensation policy was approved by our shareholders in January 2017 and was further amended in March 2017 and February 2018.

*Approvals.* The Companies Law provides that a transaction with an office holder or a transaction in which an office holder has a personal interest may not be approved if it is adverse to the company's interest. In addition, such a transaction generally requires board approval, unless the transaction is an extraordinary transaction, in which case it requires audit committee approval prior to the approval of the board of directors. A person, including a director, who has a personal interest in a matter that is considered at a meeting of the board of directors or the audit committee may not attend that meeting or vote on that matter; however, an office holder who has a personal interest in a transaction may be present during the presentation of the matter if the board or committee chairman determined that such presence is necessary for the presentation of the matter. A director with a personal interest in a matter that is considered at a meeting of the board of directors or the audit committee may attend that meeting or vote on that matter if a majority of the board of directors or the audit committee also has a personal interest in the matter; however, if a majority of the board of director has a personal interest, shareholder approval is also required.

## **Shareholders**

Approval of the audit committee, the board of directors and our shareholders is required for extraordinary transactions with a controlling shareholder or in which a controlling shareholder has a personal interest. For these purposes, a controlling shareholder is any shareholder that has the ability to direct the company's actions, including any shareholder holding 25% or more of the voting rights if no other shareholder owns more than 50% of the voting rights in the company. The shareholdings of two or more shareholders with a personal interest in the approval of the same transaction are aggregated for this purpose.

The shareholder approval must include the majority of shares voted at the meeting. In addition, either:

- the majority must include at least a majority of the shares of the voting shareholders who have no personal interest in the transaction voted at the meeting; or
- the total shareholdings of those who have no personal interest in the transaction and who vote against the transaction must not represent more than 2% of the aggregate voting rights in the company.

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

- any amendment to the articles of association;
- an increase in the company's authorized share capital;
- a merger; or
- approval of related party transactions that require shareholder approval.

A shareholder has a general duty to refrain from depriving any other shareholder of their rights as a shareholder. In addition, any controlling shareholder, any shareholder who knows that it possesses the power to determine the outcome of a shareholder or class vote and any shareholder who, pursuant to the company's articles of association has the power to appoint or prevent the appointment of an office holder in the company, is under a duty to act with fairness towards the company.

## **Anti-Takeover Provisions; Mergers and Acquisitions**

*Merger.* The Companies Law permits merger transactions with the approval of each party's board of directors and shareholders.

Under the Companies Law, a merging company must inform its creditors of the proposed merger. Any creditor of a party to the merger may seek a court order to delay or block the merger, if there is a reasonable concern that the surviving company will not be able to satisfy all of the obligations of the parties to the merger. Moreover, a merger may not be completed until all of the required approvals have been filed by both merging companies with the Israeli Registrar of Companies and (i) 30 days have passed from the time both companies' shareholders resolved to approve the merger, and (ii) at least 50 days have passed from the time that the merger proposal was filed with the Israeli Registrar of Companies.

*Tender Offer.* The Companies Law requires a purchaser to conduct a tender offer in order to purchase shares in publicly held companies, if as a result of the purchase the purchaser would hold 25% or more of the voting rights of a company in which no other shareholder holds 25% or more of the voting rights, or the purchaser would hold more than 45% of the voting rights of a company in which no other shareholder holds more than 45% of the voting rights. The tender offer must be extended to all shareholders, but the offeror is not required to purchase more than 5% of the company's outstanding shares, regardless of how many shares are tendered by shareholders. The tender offer generally may be consummated only if (i) at least 5% of the voting rights in the company will be acquired by the offeror and (ii) the number of shares tendered in the offer (excluding shares held by the controlling shareholders, shareholders who have personal interest in the offer, shareholders who own 25% or more of the voting rights in the company, relatives or representatives of any of the above or the bidder and corporations under their control) exceeds the number of shares whose holders objected to the offer. The requirement to conduct a tender offer shall not apply to (i) the purchase of shares in a private placement, provided that such purchase was approved by the company's shareholders for this purpose; (ii) a purchase from a holder of 25% or more of the voting rights of a company that results in a person becoming a holder of 25% or more of the voting rights of a company, and (iii) a purchase from the holder of more than 45% of the voting rights of a company that results in a person becoming a holder of more than 45% of the voting rights of a company.

Under the Companies Law, a person may not purchase shares of a public company if, following the purchase of shares, the purchaser would hold more than 90% of the company's shares, unless the purchaser makes a tender offer to purchase all of the target company's shares. If, as a result of the tender offer, the purchaser would hold more than 95% of the company's shares and more than half of the offerees that have no personal interest have accepted the offer, the ownership of the remaining shares will be transferred to the purchaser. Alternatively, the purchaser will be able to purchase all shares if the percentage of the offerees that did not accept the offer constitute less than 2% of the company's shares. If the purchaser is unable to purchase 95% or more of the company's shares, the purchaser may not own more than 90% of the shares of the target company.

*Tax Law.* Israeli tax law treats some acquisitions, such as a stock-for-stock swap between an Israeli company and a foreign company, less favorably than U.S. tax law. For example, Israeli tax law may subject a shareholder who exchanges his ordinary shares for shares in a foreign corporation to immediate taxation. Please see "Item 10.E Taxation — Israeli Taxation."

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

Our articles of association allow us to indemnify, exculpate and insure our office holders, which includes our directors, to the fullest extent permitted by the Companies Law (other than with respect to certain expenses in connection with administrative enforcement proceedings under the Israeli Securities Law), provided that procuring this insurance or providing this indemnification or exculpation is duly approved by the requisite corporate bodies (as described above under "Related Party Transactions—Compensation").

Under the Companies Law, a company may indemnify an office holder in respect of some liabilities, either in advance of an event or following an event. If a company undertakes to indemnify an office holder in advance against monetary liability incurred in his or her capacity as an office holder, whether imposed in favor of another person pursuant to a judgment, a settlement or an arbitrator's award approved by a court, the indemnification must be limited to foreseeable events in light of the company's actual activities at the time of the indemnification undertaking and to a specific sum or a reasonable criterion under such circumstances, as determined by the board of directors.

Under the Companies Law, only if and to the extent provided by its articles of association, a company may indemnify an office holder against the following liabilities or expenses incurred in his or her capacity as an office holder:

- any monetary liability whether imposed on him or her in favor of another person pursuant to a judgment, a settlement or an arbitrator's award approved by a court;
- reasonable litigation expenses, including attorneys' fees, incurred by him or her as a result of an investigation or proceedings instituted against him or her by an authority empowered to conduct an investigation or proceedings, which are concluded either (i) without the filing of an indictment against the office holder and without the levying of a monetary obligation in lieu of criminal proceedings upon the office holder, or (ii) without the filing of an indictment against the office holder but with levying a monetary obligation in substitute of such criminal proceedings upon the office holder for a crime that does not require proof of criminal intent;
- reasonable litigation expenses, including attorneys' fees, in proceedings instituted against him or her by the company, on the company's behalf or by a third-party, or in connection with criminal proceedings in which the office holder was acquitted, or as a result of a conviction for a crime that does not require proof of criminal intent, or in connection with an administrative enforcement proceeding or financial sanction instituted against him; and
- reasonable litigation expenses, including attorneys' fees, incurred by him or her as a result of an administrative enforcement proceeding instituted against him or her.

Under the Companies Law, a company may obtain insurance for an office holder against liabilities incurred in his or her capacity as an office holder, if and to the extent provided for in its articles of association. These liabilities include a breach of duty of care to the company or a third-party, a breach of duty of loyalty, any monetary liability imposed on the office holder in favor of a third-party, and reasonable litigation expenses, including attorney fees, incurred by an office holder as a result of an administrative enforcement proceeding instituted against him.

A company may, in advance only, exculpate an office holder for a breach of the duty of care, except in connection with a distribution of dividends or a repurchase of the company's securities. A company may not exculpate an office holder from a breach of the duty of loyalty towards the company.

Under the Companies Law, however, an Israeli company may only insure an office holder against a breach of duty of loyalty to the extent that the office holder acted in good faith and had reasonable grounds to assume that the action would not prejudice the company. In addition, an Israeli company may not indemnify, insure or exculpate an office holder against a breach of duty of care if committed intentionally or recklessly, or an action committed with the intent to derive an unlawful personal gain, or for a fine or forfeit levied against the office holder.

We have purchased liability insurance and entered into indemnification and exculpation agreements for the benefit of our office holders in accordance with the Companies Law and our articles of association.

The maximum indemnification amount set forth in such agreements is limited to the higher of (i) \$50,000,000 and (ii) 25% of the Company's shareholders' equity set forth on the Company's most recent consolidated balance sheet at the time that the obligation to indemnify hereunder is incurred. Such maximum amount is in addition to any amount paid (if paid) under insurance and/or by a third-party pursuant to an indemnification arrangement. In the opinion of the SEC, indemnification of directors and office holders for liabilities arising under the Securities Act, however, is against public policy and therefore unenforceable.

We have obtained directors' and officers' liability insurance for the benefit of our office holders and intend to continue to maintain such coverage and pay all premiums thereunder to the fullest extent permitted by the Companies Law.

## C. MATERIAL CONTRACTS

### Search Services Agreement with Microsoft

Our previous agreement with Microsoft Online Inc. (which we refer to as the Microsoft Agreement) had a term from January 1, 2015 until December 31, 2017. The Microsoft Agreement included desktop and tablet distribution with limited exclusivity in the United States, as well as mobile distribution. In October 2017, we entered into an agreement with Microsoft Ireland Operations Limited effective as of January 1, 2018 until December 31, 2020 (which we refer to as the Renewed Microsoft Agreement).

### Registration Rights Undertaking in connection with ClientConnect Acquisition

Pursuant to the Registration Rights Undertaking, dated January 2, 2014, which we entered into with certain former shareholders of ClientConnect with respect to our ordinary shares issued to them in the ClientConnect Acquisition, we have the following general obligations:

- **Form F-3 Shelf Registration Rights.** We were required to file a "shelf" registration statement on Form F-3, as soon as practicable following the filing of our 2013 annual report, to register the resale from time to time by the holders thereof whose resale of shares would otherwise be subject to volume limitations set forth in SEC Rule 144. The holders of an aggregate of approximately 46.2 million ordinary shares have requested to include such shares in such registration statement, including Ronen Shilo, Dror Erez, Benchmark Israel, Zack and Orli Rinat, Project Condor and Roy Gen. We undertook to use our commercially reasonable efforts to maintain the effectiveness of the registration statement until the earliest of (i) five years following effectiveness, (ii) the resale of all the shares covered thereby and (iii) with respect to any shareholder, the ability of such shareholder to sell all of its shares under SEC Rule 144 without any volume limitations. Accordingly, we filed a shelf registration statement on May 8, 2014, and it was declared effective on August 7, 2014. For a period of three years following the expiration of such registration statement, at the request of holders whose resale of shares would otherwise be subject to volume limitations under SEC Rule 144, we would be required to file additional shelf registration statements and maintain the effectiveness thereof until the disposition of all the shares covered thereby. Such shelf registration rights are limited to four requests during such three-year period.
- **Piggyback Registration Rights.** If we effect a registered offering of securities, the holders of registrable securities consisting of at least 3% of our outstanding share capital at the relevant time (or 2% in the case of W Capital Engage, L.P.) or a holder whose resale of registrable securities would otherwise be subject to volume limitations set forth in SEC Rule 144 will have the right to include its shares in the registration effected pursuant to such offering. The number of piggyback registrations is unlimited.
- All reasonable expenses incurred in connection with any such registrations, other than underwriting discounts and commissions, will be borne by us. We are subject to customary indemnification undertakings with respect to any registration effected pursuant to the Registration Rights Undertaking.

### Undertone Merger Agreement

On November 30, 2015, we entered into a Merger Agreement with IncrediTone Inc., our indirectly wholly owned subsidiary, Or Merger, Inc., which was wholly owned by IncrediTone, Interactive Holding Corp. (d/b/a Undertone), and Fortis Advisors LLC, as agent of the participating holders of Undertone, pursuant to which Or Merger, Inc. merged with and into Undertone on the same day, resulting in Undertone becoming a wholly owned subsidiary of IncrediTone. We paid approximately \$91 million in cash at the closing and retained \$16 million as a holdback to cover potential claims until May 2017. We were also required to pay \$3 million in installments over the period ended May 2017 and another \$20 million, bearing interest, in November 2020. The Merger Agreement contains customary representations, warranties, covenants and indemnification provisions. On August 2, 2016, we executed an amendment to the Merger Agreement, pursuant to which we paid \$22 million and eliminated approximately \$36 million of obligations.

## **Undertone Secured Credit Agreement**

On November 30, 2015, concurrently with the closing of the Undertone Merger Agreement, Undertone entered into a new secured credit agreement with its existing lenders for \$50.0 million, due in quarterly installments from March 2016 to November 2019. The credit agreement is not guaranteed by Perion, but it is secured by a pledge on Perion's indemnification rights under the Undertone Merger Agreement.

On March 4, 2016, Undertone entered into an amendment to the secured credit agreement. The amendment to the credit agreement adds a \$10.0 million revolving loan facility (which includes a \$3.0 million swing line loan commitment and a \$3.0 million letter of credit commitment). Additionally, the amendment postpones the commencement date of a few of Undertone's undertakings and covenants and increases Undertone's ability to invest in some of its subsidiaries. On May 8, 2016, Undertone entered into a second amendment to the secured credit agreement further postponing the commencement of some of Undertone's undertakings. Furthermore, on October 7, 2016, Undertone entered into a third amendment reducing the revolving loan facility amount to \$2.5 million and amending financial covenants. In March 2018, Undertone entered into a fourth amendment adjusting the financial covenants and providing for a waiver of the financial covenant defaults of the quarter ending December 31, 2017. As of December 31, 2017, the balance of the loan is \$32.3 million, out of which \$27.7 million classified as long term debt and \$4.3 million as current maturities.

### **D. EXCHANGE CONTROLS**

Non-residents of Israel who hold our ordinary shares are able to receive any dividends, and any amounts payable upon the dissolution, liquidation and winding up of our affairs, freely repatriable in non-Israeli currency at the rate of exchange prevailing at the time of conversion. However, Israeli income tax is required to have been paid or withheld on these amounts. In addition, the statutory framework for the potential imposition of exchange controls has not been eliminated, and may be restored at any time by administrative action.

### **E. TAXATION**

The following is a general summary only and should not be considered as income tax advice or relied upon for tax planning purposes.

#### **ISRAELI TAXATION**

THE FOLLOWING DESCRIPTION IS NOT INTENDED TO CONSTITUTE A COMPLETE ANALYSIS OF ALL TAX CONSEQUENCES RELATING TO THE OWNERSHIP OR DISPOSITION OF OUR ORDINARY SHARES. YOU SHOULD CONSULT YOUR OWN TAX ADVISOR CONCERNING THE TAX CONSEQUENCES OF YOUR PARTICULAR SITUATION, AS WELL AS ANY TAX CONSEQUENCES THAT MAY ARISE UNDER THE LAWS OF ANY STATE, LOCAL, FOREIGN OR OTHER TAXING JURISDICTION.

The following is a summary of the material Israeli tax laws applicable to us, and some Israeli Government programs benefiting us. This section also contains a discussion of some Israeli tax consequences to persons acquiring our ordinary shares. This summary does not discuss all the aspects of Israeli tax law that may be relevant to a particular investor in light of his or her personal investment circumstances or to some types of investors subject to special treatment under Israeli law. Examples of this kind of investor include residents of Israel or traders in securities who are subject to special tax regimes not covered in this discussion. Since some parts of this discussion are based on new tax legislation that has not yet been subject to judicial or administrative interpretation, we cannot assure you that the appropriate tax authorities or the courts will accept the views expressed in this discussion.

*The discussion below should not be construed as legal or professional tax advice and does not cover all possible tax considerations. Potential investors are urged to consult their own tax advisors as to the Israeli or other tax consequences of the purchase, ownership and disposition of our ordinary shares, including, in particular, the effect of any foreign, state or local taxes.*

#### **General Corporate Tax Structure in Israel**

Taxable income of Israeli companies is generally subject to corporate tax at the rate of 24% for the 2017 tax year. Under an amendment to the Israeli Income Tax Ordinance, the corporate tax rate will decrease to 23% for 2018 and thereafter. However, the effective tax rate payable by a company that derives income from a Preferred Enterprise (as further discussed below) may be considerably lower.



## Foreign Currency Regulations

We are permitted to measure our Israeli taxable income in U.S. dollars pursuant to regulations published by the Israeli Minister of Finance, which provide the conditions for doing so. We believe that we meet and will continue to meet, the necessary conditions and as such, we measure our results for tax purposes based on the U.S. dollar/NIS exchange rate as of December 31st of each year.

## Law for the Encouragement of Capital Investments, 1959

The Law for Encouragement of Capital Investments, 1959 (the “Investment Law”) provides tax benefits for income of Israeli companies meeting certain requirements and criteria. The Investment Law has undergone certain amendments and reforms in recent years.

The Israeli parliament enacted a reform to the Investment Law, effective January 2011. According to the reform, a flat rate tax applies to companies eligible for the “Preferred Enterprise” status. In order to be eligible for Preferred Enterprise status, a company must meet minimum requirements to establish that it contributes to the country’s economic growth and is a competitive factor for the Gross Domestic Product (a competitive enterprise).

We elected “Preferred Enterprise” status commencing in 2011.

Benefits granted to a Preferred Enterprise include reduced tax rates. In peripheral regions (Development Area A) the reduced tax rate was 9% in 2015 and 2016. Under an amendment to the Investment Law enacted in December 2016, the reduced tax rate was decreased to 7.5% starting from 2017 and thereafter. In other regions the tax rate was 16% in 2015, 2016 and 2017. Preferred Enterprises in peripheral regions will be eligible for grants from the Israeli Authority for Investments and Development of the Industry and Economy (the “Investment Center”), as well as the applicable reduced tax rates.

A distribution from a Preferred Enterprise out of the “Preferred Income” would be subject to 20% withholding tax for Israeli-resident individuals and non-Israeli residents (or a reduced rate under an applicable double tax treaty subject to the receipt in advance of a valid certificate from the ITA allowing for a reduced tax rate). Upon a distribution of a dividend to an Israeli company, no withholding tax is remitted.

A distribution from income derived from Approved or Beneficiary Enterprise are subject, under certain conditions, to withholding at the rate of 15% or 20%. Nonetheless, a company electing to waive its Beneficiary Enterprise or Approved Enterprise status, which relate to tax incentive programs afforded under previous versions of the Investment Law, through June 30, 2015, will be entitled to distribute income generated by the Approved/Beneficiary Enterprise to its Israeli corporate shareholders exempt from withholding tax. A distribution from income exempt under Beneficiary Enterprise and Approved Enterprise programs will subject the exempt income to tax at the reduced corporate income tax rates pertaining to the Beneficiary Enterprise and Approved Enterprise programs upon distribution, or complete liquidation in the case of a Beneficiary Enterprise’s exempt income.

Pursuant to an amendment to the Investments Law which became effective on November 12, 2012 (“Amendment 69”), a company that elects by November 11, 2013 to pay a corporate tax rate as set forth in that amendment (rather than the regular corporate tax rate applicable to Approved Enterprise or Beneficiary Enterprise income) with respect to undistributed exempt income accumulated by the company up until December 31, 2011, will be entitled to distribute a dividend from such income without being required to pay additional corporate tax with respect to such dividend. A company that has so elected must make certain qualified investments in Israel over the five-year period commencing in 2013. A company that has elected to apply the amendment cannot withdraw from its election.

During 2013, we applied the provisions of Amendment 69 to all undistributed exempt profits accrued prior to 2011 by us and our Israeli subsidiary. Consequently, we paid NIS 6.3 million (approximately \$1.8 million) corporate tax on exempt income of NIS 63.2 million (approximately \$17.9 million). This income is available to be distributed as dividends in future years with no additional corporate tax liability. As a result, we are required to invest (and have already invested) NIS 4.7 million (approximately \$1.2 million) in our industrial enterprises in Israel over a five year period. Such investment may be in the form of the acquisition of industrial assets (excluding real estate assets), investment in R&D in Israel, or payroll payments to new employees to be hired by the enterprise.

In December 2016, the Economic Efficiency Law (Legislative Amendments for Applying the Economic Policy for the 2017 and 2018 Budget Years), 2016, which includes Amendment 73 to the Law for the Encouragement of Capital Investments, was published. Amendment 73 prescribes special tax routes for technological enterprises as described below, and is in addition to the other existing tax beneficial programs under the Investment Law.

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

We believe that we currently qualify as an “Industrial Company” within the meaning of the Law for the Encouragement of Industry (Taxes), 1969, or the Industry Encouragement Law. The Industry Encouragement Law defines “Industrial Company” as a company resident of Israel which was incorporated in Israel, of which 90% or more of its income in any tax year, other than of income from defense loans, capital gains, interest and dividends, is derived from an “Industrial Enterprise” owned by it and located in Israel. An “Industrial Enterprise” is defined as an enterprise whose major activity in a given tax year is industrial production.

The following corporate tax benefits, among others, are available to Industrial Companies:

- amortization of the cost of purchased know-how and patents, which are used for the development or advancement of the company, over an eight-year period;
- accelerated depreciation rates on equipment and buildings;
- under specified conditions, an election to file consolidated tax returns with additional related Israeli Industrial Companies; and
- expenses related to a public offering are deductible in equal amounts over three years.

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

## Transfer Pricing

In accordance with Section 85A of the Israeli Tax Ordinance, if in an international transaction (where at least one party is a non-Israeli or all or part of the income from such transaction is to be taxed abroad as well as in Israel) there is a special relationship between the parties (including but not limited to family relationship or a relationships of control between companies), and due to this relationship the price set for an asset, right, service or credit was determined or other conditions for the transaction were set such that a smaller profit was realized than what would have been expected to be realized from a transaction of this nature, then such transaction shall be reported in accordance with customary market conditions and tax shall be charged accordingly. The assessment of whether a transaction falls under the aforementioned definition shall be implemented in accordance with one of the procedures mentioned in the regulations and is based, among others, on comparisons of characteristics which portray similar transactions in ordinary market conditions, such as profit, the area of activity, nature of the asset, the contractual conditions of the transaction and according to additional terms and conditions specified in the regulations.

## Taxation of our Shareholders

*Taxation on Dividends to Israeli Resident Shareholders.* Dividends paid to Israeli individuals, are subject to 25% withholding tax. With respect to an Israeli individual who is a “substantial shareholder” (which is someone who alone, or together with another person who collaborates with such person on a permanent basis, holds, directly or indirectly, at least 10% in one or all of any of the means of control in the corporation) at the time of receiving the dividend or on any date in the preceding 12 months), the applicable withholding tax rate is 30%. However, dividends distributed from taxable income attributed to Preferred Enterprise to Israeli individuals are subject to withholding tax at the rate of 20%. If the dividend is attributable partly to income derived from a Preferred Enterprise, and partly to other sources of income, the withholding rate will be a blended rate reflecting the relative portions of the two types of income.

Israeli resident corporations are generally exempt from Israeli corporate tax for dividends paid on shares of Israeli resident corporations

*Capital Gains Taxes Applicable to Israeli Resident Shareholders.* An individual is subject to a 25% tax rate on real capital gains derived from the sale of shares, as long as the individual is not a “substantial shareholder” in the company issuing the shares.

A substantial shareholder will be subject to tax at a rate of 30% in respect of real capital gains derived from the sale of shares issued by a company in which he or she is a substantial shareholder at the time of sale or at any time during the preceding 12 months period.

Israeli corporations are generally subject to the corporate tax rate (24% in 2017 and 23% commencing on January 1, 2018) on capital gains derived from the sale of shares.

*Capital Gains Taxes Applicable to Non-Israeli Resident Shareholders.* Shareholders that are not Israeli residents are generally exempt from Israeli capital gains tax on any gains derived from the sale, exchange or disposition of our ordinary shares, provided that (1) such shareholders did not acquire their shares prior to our initial public offering, (2) the shares are listed for trading on TASE and/or a foreign exchange, and (3) such gains did not derive from a permanent establishment of such shareholders in Israel. However, non-Israeli corporations will not be entitled to the foregoing exemptions if Israeli residents (i) have a controlling interest of more than 25% in such non-Israeli corporation, or (ii) are the beneficiaries of or are entitled to 25% or more of the revenues or profits of such non-Israeli corporation, whether directly or indirectly. In certain instances, where our shareholders may be liable to Israeli tax on the sale of their ordinary shares, the payment of the consideration may be subject to the withholding of Israeli tax at the source.

Under the U.S.-Israel Tax Treaty, the sale, exchange or disposition of our ordinary shares by a shareholder who is a U.S. resident (for purposes of the U.S.-Israel Tax Treaty) holding the ordinary shares as a capital asset is exempt from Israeli capital gains tax unless either (i) the shareholder holds, directly or indirectly, shares representing 10% or more of our voting capital during any part of the 12-month period preceding such sale, exchange or disposition, or (ii) the capital gains arising from such sale are attributable to a permanent establishment of the shareholder located in Israel, or (iii) the seller, if an individual, has been present in Israel for 183 days or more than (in the aggregate), during the taxable year.

The purchaser of the securities, the stockbrokers who effected the transaction or the financial institution holding the traded securities through which payment to the seller is made are obligated to withhold Israeli tax at source from such payment. Shareholders may be required to demonstrate that they are exempt from tax on their capital gains in order to avoid withholding at source at the time of sale. Specifically, in transactions involving a sale of all of the shares of an Israeli resident company, in the form of a merger or otherwise, the ITA may require from shareholders who are not liable for Israeli tax to sign declarations in forms specified by this authority or obtain a specific exemption from the ITA to confirm their status as non-Israeli resident.

*Taxation of Non-Israeli Shareholders on Receipt of Dividends.* Non-residents of Israel are generally subject to Israeli income tax on the receipt of dividends paid on our ordinary shares at the rate of 25%, 30% for a substantial shareholder, or 20% if the dividend is distributed from income attributed to Preferred Enterprise, which tax will be withheld at source. Such rates may be reduced by the application of the provisions of applicable double tax treaties (subject to the receipt in advance of a valid certificate from the ITA allowing for a reduced tax rate). If the dividend is attributable partly to income derived from a Preferred Enterprise, and partly to other sources of income, the withholding rate will be a blended rate reflecting the relative portions of the two types of income.

Under the U.S.-Israel Tax Treaty, the maximum rate of tax withheld in Israel on dividends paid to a holder of our ordinary shares who is a U.S. resident (for purposes of the U.S.-Israel Tax Treaty) is 25%. However, generally, the maximum rate of withholding tax on dividends, not generated by our Approved, Beneficiary or Preferred Enterprises that are paid to a U.S. corporation holding 10% or more of our outstanding voting capital throughout the tax year in which the dividend is distributed as well as the previous tax year, is 12.5%. The lower 12.5% rate does not apply if the company has more than 25% of its gross income derived from certain types of passive income. Furthermore, dividends paid from income derived from our Approved, Beneficiary or Preferred Enterprise are subject, under certain conditions, to withholding at the rate of 15% or 20%. We cannot assure you that we will designate the profits that are being distributed in a way that will reduce shareholders' tax liability. A non-resident of Israel who receives dividends from which tax was withheld is generally exempt from the duty to file returns in Israel in respect of such income, provided such income was not derived from a business conducted in Israel by the taxpayer, and the taxpayer has no other taxable sources of income in Israel.

*Excess Tax.* Individuals who are subject to tax in Israel, whether as an Israeli resident or a non-Israeli resident, are also subject to an additional tax on annual taxable income exceeding NIS 810,720 in 2016 and 640,000 in 2017 and thereafter (linked to the Israeli consumer price index) at a rate of 2% in 2016 and 3% in 2017 and thereafter, including, but not limited to, dividends, interest and capital gain, subject to the provisions of an applicable tax treaty.

## **U.S. FEDERAL INCOME TAX CONSIDERATIONS**

The following discussion is a description of certain U.S. federal income tax considerations applicable to an investment in our ordinary shares by U.S. Holders (defined below) who acquire our ordinary shares and hold them as capital assets for U.S. federal income tax purposes (generally, for investment). As used in this section, the term "U.S. Holder" means a beneficial owner of an ordinary share who is:

- an individual citizen or resident of the United States;
- a corporation (or entity classified as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States, any state of the United States or the District of Columbia;
- an estate, the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust if (i) a court within the United States is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all of its substantial decisions or (ii) the trust has in effect a valid election under applicable U.S. Treasury Regulations to be treated as a U.S. person.

The term “Non-U.S. Holder” means a beneficial owner of an ordinary share other than a partnership or other pass-through entity who is not a U.S. Holder. The tax consequences to a Non-U.S. Holder may differ substantially from the tax consequences to a U.S. Holder. Certain limited aspects of U.S. federal income tax considerations relevant to Non-U.S. Holders of an ordinary share are also discussed below.

This discussion is based on provisions of the Code, current and proposed U.S. Treasury Regulations and administrative and judicial interpretations, each in effect as of the date hereof, all of which are subject to change, possibly on a retroactive basis. This description does not discuss all aspects of U.S. federal income taxation that may be applicable to investors in light of their particular circumstances or to investors who are subject to special treatment under U.S. federal income tax laws, including:

- insurance companies;
- dealers in stocks, securities or currencies;
- financial institutions and financial services entities;
- regulated investment companies or real estate investment trusts;
- grantor trusts;
- S corporations;
- persons that acquire ordinary shares upon the exercise of employee stock options or otherwise as compensation;
- tax-exempt organizations;
- persons that hold ordinary shares as a position in a straddle or as part of a hedging, conversion or other integrated instrument;
- individual retirement and other tax-deferred accounts;
- certain former citizens or long-term residents of the United States;
- persons (other than Non-U.S. Holders) having a functional currency other than the U.S. dollar; and
- persons that own directly, indirectly or constructively 10% or more of our voting shares.

Additionally, the tax treatment of persons who are, or hold our ordinary shares through, a partnership or other pass-through entity is not discussed, and such persons should consult their advisor as to their tax consequences. The possible application of the alternative minimum tax, U.S. federal estate or gift taxes and any aspect of state, local or non-U.S. tax laws are also not considered in this discussion.

We urge you to consult with your own tax advisor regarding the tax consequences of investing in the ordinary shares, including the effects of U.S. federal, state, local, foreign or other tax laws.

#### **Distributions Paid on the Ordinary Shares**

Subject to the discussion below under “Passive Foreign Investment Company Considerations,” a U.S. Holder generally will be required to include in gross income as ordinary dividend income the amount of any distributions paid by us on the ordinary shares, including the amount of any non-U.S. income taxes withheld, to the extent that those distributions are paid out of our current or accumulated earnings and profits as determined for U.S. federal income tax purposes. Distributions in excess of our earnings and profits will be treated first as a non-taxable return of capital and will reduce the U.S. Holder’s tax basis in its ordinary shares to the extent thereof and, to the extent distributions exceed such tax basis, then will be treated as gain from a sale or exchange of those ordinary shares. Our dividends generally will not qualify for the dividends-received deduction applicable, in some cases, to U.S. corporations. Dividends paid in NIS, including the amount of any non-U.S. income taxes withheld, will be includible in the income of a U.S. Holder in a U.S. dollar amount calculated by reference to the exchange rate in effect on the date they are included in income by the U.S. Holder, regardless of whether the payment in fact is converted into U.S. dollars. A U.S. holder that receives distributions paid in NIS (or any other foreign currency) and converts the NIS (or other foreign currency) into dollars after the date such distributions are included in income may have foreign exchange gain or loss based on any appreciation or depreciation in the value of the NIS (or other foreign currency) against the dollar, which will generally be U.S. source ordinary income or loss.

A non-corporate U.S. Holder's "qualified dividend income" may be taxed at reduced rates (currently, a maximum rate of 20% applies). For this purpose, subject to the limitations discussed below, "qualified dividend income" generally includes dividends paid by a non-U.S. corporation if either:

- (a) the stock of that corporation with respect to which the dividends are paid is readily tradable on an established securities market in the United States, or
- (b) that corporation is eligible for the benefits of a comprehensive income tax treaty with the United States which includes an information exchange program and is determined to be satisfactory by the United States Secretary of the Treasury. The Internal Revenue Service has determined that the United States-Israel Tax Treaty is satisfactory for this purpose.

No dividend income received by a U.S. Holder will be qualified dividend income (1) unless such U.S. Holder generally has held its ordinary shares for at least 61 days during the 121-day period beginning on the date that is 60 days prior to the ex-dividend date with respect to such dividend, excluding for this purpose, under the rules of Code section 246(c), any period during which the U.S. Holder has an option to sell, is under a contractual obligation to sell, has made and not closed a short sale of, is the grantor of a deep-in-the-money or otherwise nonqualified option to buy, or has otherwise diminished its risk of loss by holding other positions with respect to, such ordinary share (or substantially identical securities) or (2) to the extent such U.S. Holder is under an obligation (pursuant to a short sale or otherwise) to make related payments with respect to positions in property substantially similar or related to the ordinary share with respect to which the dividend is paid.

In addition, a non-corporate U.S. Holder will be able to take a qualified dividend into account in determining its deductible investment interest (which is generally limited to its net investment income) only if it elects to do so; in such case the dividend will be taxed at ordinary income tax rates. Dividends paid by a non-U.S. corporation will not be qualified dividend income and thus, not qualify for reduced rates, if such corporation is, for the tax year in which the dividend is paid or the preceding tax year, a "passive foreign investment company" for U.S. federal income tax purposes.

Subject to certain conditions and limitations, non-U.S. income tax withheld on dividends may be deducted from taxable income or credited against a U.S. Holder's U.S. federal income tax liability. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. Dividends paid by us generally will be foreign source "passive income" for U.S. foreign tax credit purposes. U.S. Holders that do not elect to claim a foreign tax credit may generally instead claim a deduction for the non-U.S. income taxes withheld if such U.S. Holders itemize their deductions for U.S. federal income tax purposes. The rules relating to the determination of foreign source income and the foreign tax credit are complex, and the availability of a foreign tax credit depends on numerous factors. U.S. Holders should consult their tax advisors regarding the application of the foreign tax credit rules.

A U.S. Holder will be denied a foreign tax credit for non-U.S. income taxes withheld from a dividend received on the ordinary shares (i) if the U.S. Holder has not held the ordinary shares for at least 16 days of the 31-day period beginning on the date which is 15 days before the ex-dividend date with respect to such dividend or (ii) to the extent the U.S. Holder is under an obligation (whether pursuant to a short sale or otherwise) to make related payments with respect to positions in substantially similar or related property. Any days during which a U.S. Holder has substantially diminished its risk of loss on the ordinary shares are not counted toward meeting the required 16-day holding period.

#### **Disposition of Ordinary Shares**

Upon the sale or other disposition of ordinary shares (other than with respect to certain non-recognition transactions), subject to the discussion below under "Passive Foreign Investment Company Considerations," a U.S. Holder generally will recognize capital gain or loss equal to the difference between the amount realized on the disposition and the holder's adjusted tax basis in the ordinary shares. Gain or loss upon the disposition of the ordinary shares will be treated as long-term if, at the time of the sale or disposition, the ordinary shares were held for more than one year. Long-term capital gains realized by non-corporate U.S. Holders generally are subject to reduced rates of tax (currently, a maximum rate of 20% applies). The deductibility of capital losses by a U.S. Holder is subject to limitations.

A U.S. Holder that uses the cash method of accounting calculates the dollar value of the proceeds received on the sale as of the date that the sale settles. However, a U.S. Holder that uses the accrual method of accounting is required to calculate the value of the proceeds of the sale as of the trade date and may therefore realize foreign currency gain or loss between the trade date and the settlement date. A U.S. Holder may avoid realizing foreign currency gain or loss by electing to use the settlement date to determine the proceeds of sale for purposes of calculating the foreign currency gain or loss. In addition, a U.S. Holder that receives foreign currency upon disposition of ordinary shares and converts the foreign currency into dollars after the settlement date or trade date (whichever date the U.S. Holder is required to use to calculate the value of the proceeds of sale) may have foreign exchange gain or loss based on any appreciation or depreciation in the value of the foreign currency against the dollar, which will generally be U.S. source ordinary income or loss.

## Net Investment Income Tax

Non-corporate U.S. Holders may be subject to an additional 3.8% surtax on all or a portion of the “net investment income,” which generally may include dividends on, or capital gains recognized from the disposition of, our ordinary shares. U.S. Holders are urged to consult their own tax advisors regarding the applicability of the net investment income tax to their investment in our shares.

## Passive Foreign Investment Company Considerations

Special U.S. federal income tax rules apply to U.S. Holders owning shares of a passive foreign investment company or “PFIC.” A non-U.S. corporation will be considered a PFIC for any tax year in which, after applying certain look-through rules, 75% or more of its gross income consists of specified types of passive income, or 50% or more of the average value of its assets (determined on a quarterly basis) consists of passive assets, which generally means assets that generate, or are held for the production of, passive income.

If we were classified as a PFIC, a U.S. Holder could be subject to increased tax liability upon the sale or other disposition of ordinary shares or upon the receipt of amounts treated as “excess distributions.” Under these rules, the excess distribution and any gain from the sale or disposition would be allocated ratably over the U.S. Holder’s holding period for the ordinary shares, and the amount allocated to the current taxable year and any taxable years prior to the first taxable year in which we were a PFIC would be taxed as ordinary income. The amount allocated to each of the prior taxable years in which we were a PFIC would be subject to tax at the highest marginal rate in effect for the applicable class of taxpayer for that year, and an interest charge for the deemed deferral benefit would be imposed on the resulting tax allocated to such prior taxable years. The tax liability with respect to the amount allocated to taxable years prior to the year of the disposition, or “excess distribution,” cannot be offset by any net operating losses. In addition, holders of stock in a PFIC may not receive a “step-up” in basis on shares acquired from a decedent. U.S. Holders who hold ordinary shares during a period when we are a PFIC will be subject to the foregoing rules even if we cease to be a PFIC. Unless otherwise provided by the IRS, if a non-U.S. corporation is a PFIC, a U.S. Holder generally is required to file an annual informational return with the IRS.

As an alternative to the tax treatment described above, a U.S. Holder could elect to treat us as a “qualified electing fund” (“QEF”), in which case the U.S. Holder would be required to include in income, for each taxable year that we are a PFIC, its pro rata share of our ordinary earnings as ordinary income and its pro rata share of our net capital gains as capital gain, subject to a separate election to defer payment of taxes where such deferral is subject to an interest charge. A QEF election is made on a shareholder-by-shareholder basis, applies to all ordinary shares held or subsequently acquired by an electing U.S. Holder and can only be revoked with consent of the IRS. A U.S. Holder may make a QEF election only if we furnish such U.S. Holder with certain tax information. We currently do not provide this information, and we do not intend to take any actions that would be necessary to permit U.S. Holders to make a QEF election in the event we become a PFIC.

As an alternative to making a QEF election, a U.S. Holder of PFIC stock which is “marketable stock” (e.g., “regularly traded” on the Nasdaq Global Select Market) may in certain circumstances avoid certain of the tax consequences generally applicable to holders of stock in a PFIC by electing to mark the stock to market as of the beginning of such U.S. Holder’s holding period for the ordinary shares. As a result of such election, in any taxable year that we are a PFIC, a U.S. Holder generally would be required to report gain or loss to the extent of the difference between the fair market value of the ordinary shares at the end of the taxable year and such U.S. Holder’s tax basis in its ordinary shares at that time. Any gain under this computation, and any gain on an actual disposition of the ordinary shares in a year in which we are a PFIC, would be treated as ordinary income. Any loss under this computation, and any loss on an actual disposition of the ordinary shares in a year in which we are a PFIC, generally would be treated as ordinary loss to the extent of the cumulative net-mark-to-market gain previously included. Any remaining loss from marking ordinary shares to market will not be allowed, and any remaining loss from an actual disposition of ordinary shares generally would be capital loss. A U.S. Holder’s tax basis in its ordinary shares is adjusted annually for any gain or loss recognized under the mark-to-market election. There can be no assurances that there will be sufficient trading volume with respect to the ordinary shares in order for the ordinary shares to be considered “regularly traded” or that our ordinary shares will continue to trade on the Nasdaq Global Select Market. Accordingly, there are no assurances that our ordinary shares will be marketable stock for these purposes. As with a QEF election, a mark-to-market election is made on a shareholder-by-shareholder basis, applies to all ordinary shares held or subsequently acquired by an electing U.S. Holder and can only be revoked with consent of the IRS (except to the extent the ordinary shares no longer constitute “marketable stock”).

Based on our income, assets, activities and market capitalization, we do not believe that we were a PFIC for the taxable year ended December 31, 2017 for U.S. federal income tax purposes. Our belief that we were not a PFIC for the 2017 taxable year is based on our estimate of the fair market value of our assets, including our intangible assets and goodwill, which are reflected in our financial statements under U.S. GAAP. In calculating the value of our assets, we value our total assets, in part, based on our total market capitalization. We believe this valuation approach is reasonable. However, there can be no assurances that the IRS could not successfully challenge our valuations or methods, which could result in our classification as a PFIC. While we intend to manage our business so as to avoid PFIC status, to the extent consistent with our other business goals, we cannot predict whether our business plans will allow us to avoid PFIC status or whether our business plans will change in a manner that affects our PFIC status determination. In addition, because the market price of our ordinary shares is likely to fluctuate and because that market price may affect the determination of whether we will be considered a PFIC, we cannot be certain that we will not be a PFIC in 2018 or become a PFIC in any other future taxable year.

The rules applicable to owning shares of a PFIC are complex, and each prospective purchaser who would be a U.S. Holder should consult with its own tax advisor regarding the consequences of investing in a PFIC.

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

Except as described in “Information Reporting and Backup Withholding” below, a Non-U.S. Holder of our ordinary shares will not be subject to U.S. federal income or withholding tax on the payment of dividends on, and the proceeds from the disposition of, our ordinary shares, unless, in the case of U.S. federal income taxes:

- the item is effectively connected with the conduct by the Non-U.S. Holder of a trade or business in the United States and (i) in the case of a resident of a country which has a treaty with the United States, the item is attributable to a permanent establishment, or (ii) in the case of an individual, the item is attributable to a fixed place of business in the United States; or
- the Non-U.S. Holder is an individual who holds the ordinary shares as a capital asset and is present in the United States for 183 days or more in the taxable year of the disposition, and certain other conditions are met.

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

U.S. Holders generally are subject to information reporting requirements with respect to dividends on, or proceeds from the disposition of, our ordinary shares. In addition, a U.S. Holder may be subject, under certain circumstances, to backup withholding with respect to dividends paid on, or proceeds from the disposition of, our ordinary shares unless the U.S. Holder provides proof of an applicable exemption or correct taxpayer identification number, and otherwise complies with the applicable requirements of the backup withholding rules. A U.S. Holder of our ordinary shares who provides an incorrect taxpayer identification number may be subject to penalties imposed by the IRS. Amounts withheld under the backup withholding rules are not an additional tax and may be refunded or credited against the U.S. Holder’s U.S. federal income tax liability, provided the required information is timely furnished to the IRS.

Non-U.S. Holders generally are not subject to information reporting or backup withholding, provided that the Non-U.S. Holder provides a taxpayer identification number, certifies to its foreign status, or establishes another exemption to the information reporting or backup withholding requirements.

Certain U.S. Holders (and to the extent provided in IRS guidance, certain Non-U.S. Holders) who hold interests in “specified foreign financial assets” (as defined in Section 6038D of the Code) are generally required to file an IRS Form 8938 as part of their U.S. federal income tax returns to report their ownership of such specified foreign financial assets, which may include our common shares, if the total value of those assets exceed certain thresholds. Substantial penalties may apply to any failure to timely file IRS Form 8938. In addition, in the event a holder that is required to file IRS Form 8938 does not file such form, the statute of limitations on the assessment and collection of U.S. federal income taxes of such holder for the related tax year may not close until three years after the date that the required information is filed. Holders should consult their own tax advisors regarding their tax reporting obligations.

#### **F. DIVIDENDS AND PAYING AGENTS**

Not applicable.

#### **G. STATEMENT BY EXPERTS**

Not applicable.

## H. DOCUMENTS ON DISPLAY

You may request a copy of our U.S. SEC filings, at no cost, by writing or calling us at Perion Network Ltd., 26 HaRokmim Street, Holon 5885849, Israel, Attention: Maoz Sigron, Telephone: +972-73-3981000. A copy of each report submitted in accordance with applicable U.S. law is available for public review at our principal executive offices. In addition, our filings with the SEC may be inspected without charge at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Information on the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. Our SEC filings are also available to the public from the SEC's website at [www.sec.gov](http://www.sec.gov).

A copy of each document (or a translation thereof to the extent not in English) concerning Perion that is referred to in this annual report on Form 20-F, is available for public view (subject to confidential treatment of agreements pursuant to applicable law) at our principal executive offices at Perion Network Ltd., 26 HaRokmim Street, Holon 5885849, Israel.

## I. SUBSIDIARY INFORMATION

Not applicable.

## ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

*Exchange Rate Risk.* A portion of our revenues and expenses are denominated in foreign currencies. As a result, numerous balances are denominated or linked to these currencies. Foreign currency related fluctuations resulted in \$2.7 million net losses in 2015, \$0.8 million net losses in 2016 and \$0.2 million net gains in 2017, respectively. These gains are included in financial expenses, net, as presented in our statements of income.

As of December 31, 2017, balance sheet financial items in U.S. dollars, our functional currency, and those currencies other than the U.S. dollars were as follows:

	<u>U.S. dollars</u>	<u>NIS</u>	<u>Other Currencies</u>	<u>Total</u>
	<u>In thousands of U.S. dollars</u>			
Current assets	99,702	6,770	7,782	114,254
Long-term assets	6,511	252	495	5,672
Current liabilities	(67,490)	(6,546)	(7,258)	(81,294)
Long-term liabilities	(39,701)	(16,302)	(70)	(54,487)
Total	<u>(978)</u>	<u>(15,826)</u>	<u>949</u>	<u>(15,854)</u>

The fair value of the outstanding derivative instruments and the notional amount of the designed and not designed as hedging as of December 31, 2017 were as follows:

	<u>Notional Amount</u>	<u>Fair Value</u>
	<u>In thousands of U.S. dollars</u>	
Cross currency SWAP	<u>24,832</u>	<u>3,346</u>
Zero-cost collar contracts to hedge payroll expenses	<u>577</u>	<u>65</u>

In addition, in territories where our prices are based on local currencies, fluctuations in the dollar exchange rate could affect our gross profit margin. We may compensate for such fluctuations by changing product prices accordingly. We also hold a small part of our financial investments in other currencies, mainly NIS and Euro. The dollar value of those investments may decline. A revaluation of 1% of the foreign currencies (i.e. other than U.S. dollar) would not have a material effect on our income before taxes possibly reducing it by less than \$0.3 million.



A significant portion of our costs, including salaries and office expenses are incurred in NIS. Inflation in Israel may have the effect of increasing the U.S. dollar cost of our operations in Israel. If the U.S. dollar declines in value in relation to the New Israeli Shekel, it will become more expensive for us to fund our operations in Israel. A revaluation of 1% of the New Israeli Shekel will affect our income before tax by approximately 10%. The exchange rate of the U.S. dollar to the New Israeli Shekel, based on exchange rates published by the Bank of Israel, was as follows:

	Year Ended December 31,		
	2015	2016	2017
Average rate for period	3.884	3.840	3.599
Rate at year-end	3.902	3.845	3.467

Since 2006 we've engaged a firm to analyze our exposure to the fluctuation in foreign currency exchange rates and are implementing their recommendations since then. However, due to the market conditions, volatility and other factors, its proposals and their implementation occasionally prove to be ineffective or can cause additional finance expenses.

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

Not applicable.

## PART II

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

None.

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

None.

### ITEM 15. CONTROLS AND PROCEDURES

#### (a) Disclosure controls and procedures

Our interim chief executive officer and chief financial officer, after evaluating the effectiveness of our disclosure controls and procedures as of December 31, 2017, have concluded that, as of such date, our disclosure controls and procedures were effective and ensured that information required to be disclosed by us in reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our interim chief executive officer and chief financial officer, to allow timely decisions regarding required disclosure and is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms.

#### (b) Management annual report on internal control over financial reporting

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting, and has assessed the effectiveness of our internal control over financial reporting as of December 31, 2017. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in "Internal Control – Integrated Framework" (2013 framework). Our management has concluded, based on its assessment, that our internal control over financial reporting was effective as of December 31, 2017.

#### (c) Attestation Report of the Registered Public Accounting Firm

Kost Forer Gabbay & Kasierer, an independent registered accounting firm and a member firm of Ernst & Young, has issued an attestation report on the effectiveness of our internal control over financial reporting, as stated in their report included herein. See "Report of Independent Registered Public Accounting Firm" on page F-3.

#### (d) Changes in internal control over financial reporting

During the period covered by this report, no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) have occurred that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has determined that Ms. Sarit Firon, who is an independent director (as defined in the NASDAQ Listing Rules) and serves on our audit committee, qualifies as an "audit committee financial expert" as defined in Item 16A of Form 20-F.

### ITEM 16B. CODE OF ETHICS

Our board of directors has adopted a code of conduct (which was amended in March 2016) applicable to all of our directors, officers and employees as required by the NASDAQ Listing Rules, which also complies with the definition of a "code of ethics" set out in Section 406(c) of the Sarbanes-Oxley Act of 2002. A copy of the code of ethics can be found on our website at: <http://www.perion.com/governance-documents>. We granted no waivers under our Code of Ethics in 2017.

**ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

Fees for the professional services rendered by our independent accountants Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global, for each of the last two fiscal years were as follows (in thousands):

	2016	2017
Audit Fees	\$ 663	\$ 707
Tax Fees	183	111
Audit Related fees	120	53
Total	<u>\$ 966</u>	<u>\$ 871</u>

*Audit fees* include fees for professional services rendered by our principal accountant in connection with the annual audit, review of quarterly consolidated financial data, internationally required statutory audits, consents and assistance with review of documents filed with the SEC.

*Audit-related fees* principally include assistance with audit services and consultations.

*Tax fees* include services related to tax compliance and claims for refunds, tax planning and advice, including assistance with tax audits and appeals, advice related to mergers and acquisitions and assistance with respect to requests for rulings from tax authorities.

*All other fees* principally include advisory services.

Our audit committee provides assistance to our board of directors in fulfilling its legal and fiduciary obligations in matters involving our accounting, auditing, financial reporting, internal control and legal compliance functions by pre-approving the services performed by our independent accountants and reviewing their reports regarding our accounting practices and systems of internal control over financial reporting. Our audit committee also oversees the audit efforts of our independent accountants and takes those actions that it deems necessary to satisfy itself that the accountants are independent of management. Our audit committee has authorized all auditing and non-auditing services provided by our independent accountants during 2016 and 2017 and the fees paid for such services.

**ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES**

None.

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

Not applicable.

**ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT**

Not applicable.

**ITEM 16G. CORPORATE GOVERNANCE**

We are a foreign private issuer whose ordinary shares are listed on the NASDAQ Global Select Market. As such, we are required to comply with U.S. federal securities laws, including the Sarbanes-Oxley Act, and the NASDAQ Listing Rules, including the NASDAQ corporate governance requirements. The NASDAQ Listing Rules provide that foreign private issuers may follow home country practice in lieu of certain qualitative listing requirements subject to certain exceptions and except to the extent that such exemptions would be contrary to U.S. federal securities laws, so long as the foreign private issuer discloses that it does not follow such listing requirement and describes the home country practice followed in its reports filed with the SEC. Below is a concise summary of the significant ways in which our corporate governance practices differ from the corporate governance requirements of NASDAQ applicable to domestic U.S. listed companies:

*Shareholder Approval.* Although the NASDAQ Listing Rules generally require shareholder approval of equity compensation plans and material amendments thereto, we follow Israeli practice, which is to have such plans and amendments approved only by the board of directors, unless such arrangements are for the compensation of chief executive officer or directors, in which case they also require the approval of the compensation committee and the shareholders.

In addition, rather than follow the NASDAQ Listing Rules requiring shareholder approval for the issuance of securities in certain circumstances, we follow Israeli law, under which a private placement of securities requires approval by our board of directors and shareholders if it will cause a person to become a controlling shareholder (generally presumed at 25% ownership) or if:

- the securities issued amount to 20% or more of our outstanding voting rights before the issuance;
- some or all of the consideration is other than cash or listed securities or the transaction is not on market terms; and
- the transaction will increase the relative holdings of a shareholder that holds 5% or more of our outstanding share capital or voting rights or will cause any person to become, as a result of the issuance, a holder of more than 5% of our outstanding share capital or voting rights.

*Shareholder Quorum.* The NASDAQ Listing Rules require that an issuer have a quorum requirement for shareholders meetings of at least one-third of the outstanding shares of the issuer's common voting stock. We have chosen to follow home country practice with respect to the quorum requirements of an adjourned shareholders meeting. Our articles of association, as permitted under the Companies Law, provide that if at the adjourned meeting a legal quorum is not present after 30 minutes from the time specified for the commencement of the adjourned meeting, then the meeting shall take place regardless of the number of members present and in such event the required quorum shall consist of any number of shareholders present in person or by proxy.

*Executive Sessions.* While the NASDAQ Listing Rules require that "independent directors," as defined in the NASDAQ Listing Rules, must have regularly scheduled meetings at which only "independent directors" are present. Israeli law does not require, nor do our independent directors necessarily conduct, regularly scheduled meetings at which only they are present.

*Approval of Related Party Transactions.* Although the NASDAQ Listing Rules require the approval of the audit committee or another independent body of a Company's board of directors for all "related party transactions" required to be disclosed pursuant to Item 7.B. of Form 20-F, we follow the provisions of the Israeli Companies Law. Specifically, that all related party transactions are approved in accordance with the requirements and procedures for approval of interested party acts and transactions, set forth in sections 268 to 275 of the Israeli Companies Law, and the regulations promulgated thereunder, which allow for the approval of certain related party transactions, which are immaterial, in the normal course of business and on market terms, by the board of directors. Other specified transactions can require audit committee approval and shareholder approval, as well as board approval. See also "Item 10.B Memorandum and Articles of Association — Approval of Related Party Transactions" for the definition and procedures for the approval of related party transactions.

*Compensation Committee.* The NASDAQ Listing Rules require a listed company to have a compensation committee composed entirely of independent directors that operates pursuant to a written charter addressing its purpose, responsibilities and membership qualifications and may receive counseling from independent consultants, after evaluating their independence. We have a compensation committee whose purpose, responsibilities and membership qualifications are governed by the Israeli Companies Law, as described under Item 6.C "Board Practices—Committees of the Board of Directors —Compensation Committee." There are no specific independence evaluation requirements for outside consultants.

#### **ITEM 16H. MINE SAFETY DISCLOSURE**

Not applicable.

**PART III**

**ITEM 17. FINANCIAL STATEMENTS**

Not applicable.

**ITEM 18. FINANCIAL STATEMENTS**

The following financial statements and related auditors' report are filed as part of this annual report:

PERION NETWORK LTD. AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2017

IN U.S. DOLLARS

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Tel-Aviv 6492102, Israel

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM  
TO THE SHAREHOLDERS AND BOARD OF DIRECTORS OF PERION NETWORK LTD.**

**Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of Perion Network Ltd. and subsidiaries ("the Company") as of December 31, 2017 and 2016, the related consolidated statements of income (operations), comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2017 and the related notes (collectively referred to as the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 27, 2018 expressed an unqualified opinion thereon.

**Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

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

We have served as the Company's auditor since 2004.  
Tel-Aviv, Israel  
March 27, 2018



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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM  
TO THE SHAREHOLDERS AND BOARD OF DIRECTORS OF PERION NETWORK LTD.**

**Opinion on Internal Control over Financial Reporting**

We have audited Perion Network Ltd. and subsidiaries' ("the Company") internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), (the COSO criteria). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2017 and 2016, the related consolidated statements of income (operations), comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2017, and the related notes, and our report dated March 27, 2018 expressed an unqualified opinion thereon.

**Basis for Opinion**

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

**Definition and Limitations of Internal Control Over Financial Reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.





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Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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

Tel-Aviv, Israel  
March 27, 2018

## CONSOLIDATED BALANCE SHEETS

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

	December 31,	
	2016	2017
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 23,962	\$ 31,567
Short-term bank deposits	8,414	5,913
Accounts receivable (net of allowance of \$789 and \$609 at December 31, 2016 and 2017, respectively)	71,346	62,830
Prepaid expenses and other current assets	10,036	13,955
<b>Total Current Assets</b>	<b>113,758</b>	<b>114,265</b>
Property and equipment, net	14,205	17,476
Intangible assets, net	44,018	11,309
Goodwill	190,737	125,051
Deferred taxes	4,117	4,798
Other assets	1,617	1,128
<b>Total Assets</b>	<b>\$ 368,452</b>	<b>\$ 274,027</b>
<b>Liabilities and Shareholders' Equity</b>		
Current Liabilities:		
Accounts payable	\$ 38,293	\$ 39,180
Accrued expenses and other liabilities	17,466	17,784
Short-term loans and current maturities of long-term and convertible debt	17,944	13,989
Deferred revenues	5,354	5,271
Payment obligation related to acquisitions	7,653	5,146
<b>Total Current Liabilities</b>	<b>86,710</b>	<b>81,370</b>
<b>Long-Term Liabilities:</b>		
Long-term debt, net of current maturities	37,928	30,026
Convertible debt, net of current maturities	21,862	16,693
Deferred taxes	8,087	-
Other long-term liabilities	5,721	7,606
<b>Total Liabilities</b>	<b>160,308</b>	<b>135,695</b>
<b>Commitments and Contingencies</b>		
<b>Shareholders' Equity:</b>		
Ordinary shares of ILS 0.01 par value - Authorized: 120,000,000 shares; Issued: 77,569,088 and 77,896,088 shares at December 31, 2016 and 2017, respectively; Outstanding: 77,223,069 and 77,550,069 shares at December 31, 2016 and 2017, respectively	210	211
Additional paid-in capital	234,831	236,975
Treasury shares at cost (346,019 shares at December 31, 2016 and 2017)	(1,002)	(1,002)
Accumulated other comprehensive income (loss)	(265)	532
Accumulated deficit	(25,630)	(98,384)
<b>Total Shareholders' Equity</b>	<b>208,144</b>	<b>138,332</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 368,452</b>	<b>\$ 274,027</b>

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

## CONSOLIDATED STATEMENTS OF INCOME

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

	Year ended December 31,		
	2015	2016	2017
<b>Revenues:</b>			
Search and other	\$ 188,897	\$ 172,683	\$ 139,505
Advertising	32,053	140,111	134,481
<b>Total Revenues</b>	<b>220,950</b>	<b>312,794</b>	<b>273,986</b>
<b>Costs and Expenses:</b>			
Cost of revenues	7,877	25,924	24,659
Customer acquisition costs and media buy	91,194	140,210	130,885
Research and development	21,692	25,221	17,189
Selling and marketing	22,886	54,559	52,742
General and administrative	31,064	28,827	21,911
Depreciation and amortization	11,422	25,977	16,591
Impairment, net of change in fair value of contingent consideration	72,785	-	85,667
Restructuring charges	1,052	728	-
<b>Total Costs and Expenses</b>	<b>259,972</b>	<b>301,446</b>	<b>349,644</b>
<b>Income (Loss) from Operations</b>	<b>(39,022)</b>	<b>11,348</b>	<b>(75,658)</b>
Financial expenses, net	1,939	8,288	5,922
<b>Income (Loss) before Taxes on Income</b>	<b>(40,961)</b>	<b>3,060</b>	<b>(81,580)</b>
Taxes on income (benefit)	697	212	(8,826)
<b>Net Income (Loss) from Continuing Operations</b>	<b>(41,658)</b>	<b>2,848</b>	<b>(72,754)</b>
Net loss from discontinued operations	26,999	2,647	-
<b>Net Income (Loss)</b>	<b>\$ (68,657)</b>	<b>\$ 201</b>	<b>\$ (72,754)</b>
<b>Net Earnings (Loss) per Share - Basic:</b>			
Continuing operations	\$ (0.58)	\$ 0.04	\$ (0.94)
Discontinued operations	\$ (0.38)	\$ (0.04)	\$ -
<b>Net income (Loss)</b>	<b>\$ (0.96)</b>	<b>\$ 0.00*</b>	<b>\$ (0.94)</b>
<b>Net Earnings (Loss) per Share – Diluted:</b>			
Continuing operations	\$ (0.58)	\$ 0.04	\$ (0.94)
Discontinued operations	\$ (0.38)	\$ (0.04)	\$ -
<b>Net income (Loss)</b>	<b>\$ (0.96)</b>	<b>\$ 0.00*</b>	<b>\$ (0.94)</b>
<b>Weighted average number of shares – Basic:</b>			
Continuing and Discontinued operations	71,300,432	76,560,454	77,549,171
<b>Weighted average number of shares – Diluted:</b>			
Continuing and Discontinued operations	71,300,432	76,673,803	77,549,171

\*) Less than \$0.01

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

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

U.S. dollars in thousands

	Year ended December 31,		
	2015	2016	2017
<b>Net income (loss)</b>	<b>\$ (68,657)</b>	<b>\$ 201</b>	<b>\$ (72,754)</b>
Other comprehensive income (loss):			
Change in foreign currency translation adjustment	(822)	521	717
Cash Flow Hedge:			
Unrealized gain (loss) from cash flow hedges	206	175	605
Less: reclassification adjustment for net gain (loss) included in net income (loss)	(178)	(167)	(525)
Net change	28	8	80
Other comprehensive income (loss)	(794)	529	797
<b>Comprehensive Income (loss)</b>	<b>\$ (69,451)</b>	<b>\$ 730</b>	<b>\$ (71,957)</b>

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

## STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

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

	Common stock		Additional paid-in capital	Accumulated Other Comprehensive income (loss)	Retained earnings (Accumulated deficit)	Treasury shares	Total shareholders' equity
	Number of Shares	\$					
<b>Balance as of December 31, 2014</b>	<b>69,202,431</b>	<b>189</b>	<b>203,984</b>	<b>-</b>	<b>42,826</b>	<b>(1,002)</b>	<b>245,997</b>
Issuance of shares related to acquisitions	1,798,837	5	5,574	-	-	-	5,579
Issuance of shares in private placement, net of issuance cost of \$105	4,436,898	11	10,009	-	-	-	10,020
Stock-based compensation	-	-	7,679	-	-	-	7,679
Exercise of stock option and vesting of restricted stock units	373,321	1	12	-	-	-	13
Other comprehensive loss	-	-	-	(794)	-	-	(794)
Net loss	-	-	-	-	(68,657)	-	(68,657)
<b>Balance as of December 31, 2015</b>	<b>75,811,487</b>	<b>206</b>	<b>227,258</b>	<b>(794)</b>	<b>(25,831)</b>	<b>(1,002)</b>	<b>199,837</b>
Issuance of shares related to acquisitions	290,981	1	674	-	-	-	675
Issuance of shares related to price adjustment of private placement	782,981	2	(2)	-	-	-	-
Stock-based compensation	-	-	6,900	-	-	-	6,900
Exercise of stock option and vesting of restricted stock units	337,620	1	1	-	-	-	2
Other comprehensive income	-	-	-	529	-	-	529
Net income	-	-	-	-	201	-	201
<b>Balance as of December 31, 2016</b>	<b>77,223,069</b>	<b>210</b>	<b>234,831</b>	<b>(265)</b>	<b>(25,630)</b>	<b>(1,002)</b>	<b>208,144</b>
Stock-based compensation	-	-	2,144	-	-	-	2,144
Exercise of stock option and vesting of restricted stock units	327,000	1	-	-	-	-	1
Other comprehensive income	-	-	-	797	-	-	797
Net income	-	-	-	-	(72,754)	-	(72,754)
<b>Balance as of December 31, 2017</b>	<b>77,550,069</b>	<b>211</b>	<b>236,975</b>	<b>532</b>	<b>(98,384)</b>	<b>(1,002)</b>	<b>138,332</b>

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

## CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2015	2016	2017
<b>Operating activities:</b>			
Net income (loss)	\$ (68,657)	\$ 201	\$ (72,754)
Loss from discontinued operations, net	(26,999)	(2,647)	-
Net income (loss) from continuing operations	<b>(41,658)</b>	<b>2,848</b>	<b>(72,754)</b>
Adjustments required to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	11,422	25,977	16,591
Impairment of intangible assets and goodwill	79,349	-	85,667
Restructuring costs related to impairment of property and equipment	124	254	-
Stock-based compensation expense	6,738	6,844	2,112
Issuance of ordinary shares related to employees' retention	63	-	-
Foreign currency translation	(347)	980	83
Accretion of payment obligation related to acquisition	311	320	43
Accrued interest, net	37	406	475
Deferred taxes, net	(8,973)	(3,268)	(8,877)
Accrued severance pay, net	238	214	801
Change in payment obligation related to acquisitions	(5,937)	983	-
Fair value revaluation - convertible debt	175	1,350	3,785
Loss from sale of property and equipment	17	149	-
Net changes in operating assets and liabilities:			
Accounts receivable, net	3,362	(5,333)	8,888
Prepaid expenses and other current assets	(3,402)	8,613	(3,241)
Accounts payable	(3,725)	(1,702)	1,106
Accrued expenses and other liabilities	(13,250)	(2,486)	1,429
Deferred revenues	(772)	(2,365)	(95)
Net cash provided by continuing operating activities	23,772	33,784	36,013
Net cash used in discontinued operating activities	(6,203)	(3,329)	-
<b>Net cash provided by operating activities</b>	<b>\$ 17,569</b>	<b>\$ 30,455</b>	<b>\$ 36,013</b>
<b>Investing activities:</b>			
Purchases of property and equipment	\$ (2,029)	\$ (1,504)	\$ (1,606)
Proceeds from sale of property and equipment	24	151	10
Capitalization of development costs	(4,005)	(4,591)	(5,756)
Change in restricted cash, net	50	647	-
Short-term deposits, net	(27,442)	34,028	2,501
Cash paid for acquisition, net of cash acquired	(87,044)	-	-
Net cash provided by (used in) continuing investing activities	(120,446)	28,731	(4,851)
Net cash provided by discontinued investing activities	-	-	-
<b>Net cash provided by (used in) investing activities</b>	<b>\$ (120,446)</b>	<b>\$ 28,731</b>	<b>\$ (4,851)</b>
<b>Financing activities:</b>			
Issuance of shares in private placement, net	\$ 10,020	\$ -	\$ -
Exercise of stock options and restricted share units	13	2	1
Payments made in connection with acquisition	(1,534)	(29,537)	(2,551)
Proceeds from short-term loans	13,000	40,000	-
Proceeds from long-term loans	-	-	5,000
Repayment of short-term loans	-	(46,000)	(7,000)
Repayment of convertible debt	-	(7,620)	(7,901)
Repayment of long-term loans	(2,300)	(9,452)	(11,389)
<b>Net cash provided by (used in) continuing financing activities</b>	<b>\$ 19,199</b>	<b>\$ (52,607)</b>	<b>\$ (23,840)</b>
Effect of exchange rate changes on cash and cash equivalents	14	(136)	283
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>\$ (77,461)</b>	<b>\$ 9,772</b>	<b>\$ 7,605</b>
Decrease in cash and cash equivalents - discontinued activities	(6,203)	(3,329)	-
Cash and cash equivalents at beginning of year	101,183	17,519	23,962
<b>Cash and cash equivalents at end of year</b>	<b>\$ 17,519</b>	<b>\$ 23,962</b>	<b>\$ 31,567</b>

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



## CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31		
	2015	2016	2017
<b>Supplemental Disclosure of Cash Flow Activities:</b>			
<b>Cash paid during the year for:</b>			
Income taxes	\$ 21,340	\$ 3,976	\$ 8,391
Interest	\$ 2,260	\$ 5,678	\$ 4,619
<b>Non-cash investing and financing activities:</b>			
Issuance of shares in connection with acquisitions	\$ 5,579	\$ 673	\$ -
Issuance of shares in private placement	\$ -	\$ 2	\$ -
Stock-based compensation capitalized as part of capitalization of software development costs	\$ 187	\$ 14	\$ 31
Purchase of property and equipment on credit	\$ 312	\$ 322	\$ -

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

**NOTE 1: GENERAL**

- a. Perion Network Ltd. ("Perion") and its wholly-owned subsidiaries (collectively referred to as the "Company"), is a global technology company that delivers advertising solutions to brands and publishers. Perion is committed to providing data-driven execution, from high-impact ad formats to branded search and a unified social and mobile programmatic platform.
- b. On February 10, 2015, the Company completed the acquisition of Make Me Reach SAS ("MMR") and on November 30, 2015, completed the acquisition of Interactive Holding Corp and its subsidiaries (collectively referred to as "Undertone").
- c. In March 2016, the Company decided to discontinue the operations of the mobile self-serve side of the business and sale the mobile engagement business. Certain parts of the mobile marketing platform were redeployed so that it no longer functions as an independent business. In August 2016, the Company completed the sale of mobile engagement business. Accordingly, the statements of income and statements of cash flows, related to the mobile self-serve and mobile engage operations are classified as discontinued operations for all periods presented.

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES***Basis of consolidation*

The consolidated financial statements include the accounts of Perion and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated.

*Use of estimates*

The preparation of the consolidated financial statements in conformity with U.S. Generally Accepted Accounting Principles ("GAAP") requires management to make estimates, judgments and assumptions that affect the amounts reported and disclosed in the financial statements and the accompanying notes. Actual results could differ materially from those estimates. On an ongoing basis, the Company's management evaluates its estimates, including those related to sales allowances and allowance for doubtful debts, fair value of intangible assets and goodwill, useful lives of intangible assets, fair value of stock-based awards, realizability of deferred tax assets, tax uncertainties, and contingent liabilities, among others. Such estimates are based on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of the Company's assets and liabilities.

*Financial statements in U.S. dollars*

The reporting currency of the Company is the U.S. dollar ("USD"). Major parts of the Company's operations are carried out by the Company and its subsidiaries in the United States and Israel. The functional currency of these entities is the USD. Accordingly, monetary accounts maintained in currencies other than the USD are remeasured into USD, in accordance with ASC 830, "Foreign Currency Matters". All transaction gains and losses resulting from the remeasurement of the monetary balance sheet items are reflected in the statements of income as financial income or expenses, as appropriate.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Management believes that the USD is the currency of the primary economic environment in which the Company operates. The financial statements of other subsidiaries, whose functional currency is determined to be their local currency, have been translated into USD. All balance sheet accounts have been translated using the exchange rates in effect at the balance sheet date. Statement of operations amounts have been translated using the average exchange rate for each applicable quarter. The resulting translation adjustments are reported as an accumulated other comprehensive income (loss) component of shareholders' equity.

*Cash and cash equivalents and short-term deposits*

The Company considers all short-term, highly liquid and unrestricted cash balances, with stated maturities of three months or less from date of purchase, as cash equivalents. Short-term deposits are bank deposits with maturities of more than three months but less than one year. The short-term deposits as of December 31, 2016 and 2017 are denominated primarily in USD and bear interest at an average annual rate of 1.12% and 1.59%, respectively.

*Restricted cash*

Restricted cash is comprised primarily of security deposits that are held to secure the Company's hedging activity, lease obligations and certain letters of credit associated with lease obligations. Restricted cash in the amount of \$1,184 and \$1,188, as of December 31, 2016 and 2017, respectively, are included under prepaid expenses and other current assets.

*Accounts receivable and allowance for doubtful accounts*

Trade accounts receivables are stated at realizable value, net of an allowance for doubtful accounts. The Company evaluates its outstanding accounts receivable and establishes an allowance for doubtful accounts based on information available on their credit condition, current aging and historical experience. These allowances are reevaluated and adjusted periodically as additional information is available.

*Property and equipment*

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

	%
Computers and peripheral equipment	33
Office furniture and equipment	6 - 15

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Leasehold improvements are amortized using the straight-line method over the term of the lease or the estimated useful life of the improvements, whichever is shorter.

*Impairment of long-lived assets and intangible assets subject to amortization*

Property and equipment and intangible assets subject to amortization are reviewed for impairment in accordance with ASC 360, "Accounting for the Impairment or Disposal of Long-Lived Assets", whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The recoverability of these assets is measured by comparing the carrying amounts to the future undiscounted cash flows the assets are expected to generate. If property and equipment and intangible assets are considered to be impaired, the impairment to be recognized equals the amount by which the carrying value of the asset exceeds its fair market value.

In determining the fair values of long-lived assets for purpose of measuring impairment, the Company's assumptions include those that market participants will consider in valuations of similar assets.

In 2017, the Company recorded impairment charges of \$19,981, respectively, with respect to intangible assets subject to amortization. No such impairment charges were recorded in 2016. In 2015, the Company wrote off \$8,471 of intangible assets (see Note 6).

*Goodwill*

Goodwill reflects the excess of the purchase price of business acquired over the fair value of net assets acquired. Goodwill is not amortized but instead is tested for impairment, in accordance with ASC 350, "Intangibles – Goodwill and Other", at the reporting unit level, at least annually at December 31 each year, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Any excess of the carrying amount of the reporting unit over its fair value is recognized as an impairment loss, and the carrying value of goodwill is written down to fair value.

The Company determined that certain indicators of potential impairment existed during 2017, which triggered goodwill impairment analysis for its reporting units. These indicators included a decrease in the Company's share price and a miss of the targeted budget due to lower sales, higher media buy as a percentage of revenues. We expect traffic acquisition costs (TAC) as a percent of revenues to increase in 2018 and beyond as industry budgets shift toward automated channels. This trend is driven by higher TAC expectations related to increased revenues in programmatic and the effect of header bidding and Chrome ad blocker.

Based on the goodwill assessment for the Undertone reporting unit in 2017, the Company determined that the carrying amount of the Undertone reporting unit exceeds its fair value and recorded an impairment charge of \$65,686 to its Goodwill. No such impairment charges were recorded in 2016. In 2015, the Company recorded a goodwill impairment charge of \$87,043 in connection with its Search monetization reporting unit and Grow mobile reporting unit (discontinued operation).

The majority of the inputs used in the discounted cash flow model to determine the fair value of the reporting units are unobservable and thus are considered to be Level 3 inputs.

Intangible assets that are not considered to have an indefinite useful life are amortized over their estimated useful lives. The Customer Relationship, technology and trade name are amortized over their estimated useful lives in proportion to the economic benefits realized. This accounting policy results in accelerated amortization of such intangible assets as compared to the straight-line method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

*Deferred Financing Costs*

Direct and incremental costs related to the issuance of debt are capitalized as deferred financing costs and are deducted from the carrying amount of that debt in the consolidated balance sheets. The Company amortizes deferred financing costs using the effective-interest method and records such amortization as interest expense.

*Revenue recognition*

The Company generates revenues primarily from two major sources:

**Search Revenues** - the Company obtains its search revenues from service agreements with its search partners. Search revenue is generated primarily from monthly transaction volume-based fees earned by the Company for making its applications available to online publishers and app developers (either based on fixed price models, pay-per-search fee or portion of the revenue generated by the search partners).

**Advertising Revenues** - the Company primarily generates advertising revenues from delivering, high impact ad formats creatively designed to capture consumer attention and drive engagement, across a hand-picked portfolio of websites and mobile applications.

The Company evaluates whether Search and Advertising Revenues should be presented on a gross basis, which is the amount that a customer pays for the service, or on a net basis, which is the amount of the customer payment less amounts the Company pays to publishers. In making that evaluation, the Company considers indicators such as whether the Company is the primary obligor in the arrangement and assumes risks and rewards as a principal or an agent, including the credit risk, whether the Company has latitude in establishing prices and selecting its suppliers and whether it changes the products or performs part of the service. The evaluation of these factors is subject to significant judgment and subjectivity. Generally, in cases in which the Company is primarily obligated in a transaction, is subject to risk, involved in the determination of the product (or the service) specifications, separately negotiates each revenue service agreement or publisher agreement and can have several additional indicators, revenue is recorded on a gross basis.

The Company recognizes revenue when all four revenue recognition criteria have been met: persuasive evidence of an arrangement exists; services are rendered; the fee or price charged is fixed or determinable; and collectability is reasonably assured. Deferred revenue is recorded when payments are received from customers in advance of the Company's rendering of services.

*Cost of revenues*

Cost of revenues consists primarily of expenses associated with the operation of the Company's data centers, including depreciation, labor, energy and bandwidth costs, as well as content acquisition costs, and customer support. The direct cost relating to search revenues is immaterial.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**U.S. dollars in thousands (except share and per share data)***Customer acquisition costs and media buy*

Customer acquisition costs and media buy consist of amounts paid to publishers who distribute the Company's search applications and services and other products and the costs of advertising inventory incurred to deliver ads. Customer acquisition costs are primarily based on revenue share arrangements with minimum guaranty and are charged as incurred.

*Research and development costs*

Research and development costs are charged to the statement of income as incurred, except for certain costs relating to internally developed software, which are capitalized.

The Company capitalizes certain internal and external software development costs, consisting primarily of direct labor associated with creating the internally developed software. Software development projects generally include three stages: (i) the preliminary project stage (all costs expensed as incurred); (ii) the application development stage (costs are capitalized) and (iii) the post implementation/operation stage (all costs expensed as incurred). The costs capitalized in the application development stage primarily include the costs of designing the application, coding and testing of the system. Capitalized costs are amortized using the straight-line method over the estimated useful life of the software, generally three years, once it is ready for its intended use. The Company believes that the straight-line recognition method best approximates the manner in which the expected benefit will be derived. Management evaluates the useful lives of these assets on an annual basis and tests for impairment whenever events or changes in circumstances occur that could impact the recoverability of these assets. As a result of changes in circumstances, management decided to abandon certain projects and therefore recorded an impairment charge of \$3,390 in 2015, which is included as a loss from discontinued operation.

Capitalized software development costs, net of accumulated amortization, of \$4,393 and \$9,195 are included in property and equipment in the consolidated balance sheets as of December 31, 2016 and 2017, respectively (see Note 5).

*Income taxes*

The Company accounts for income taxes in accordance with ASC 740, "Income Taxes". This Statement prescribes the use of the liability method, whereby deferred tax asset and liability account balances are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. To the extent necessary, the Company provides a valuation allowance to reduce deferred tax assets to their estimated realizable value.

The Company accounts for uncertain tax positions in accordance with ASC 740, which contains a two-step approach for recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position taken or expected to be taken in a tax return by determining if the weight of available evidence indicates that it is more likely than not that the tax position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement.

The Company accrued interest and penalties related to unrecognized tax benefits in its financial expenses.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

The majority of the Company's agreements with employees in Israel are in accordance with section 14 of the Severance Pay Law, 1963 ("Section 14"), where the Company's contributions for severance pay is paid to the employee upon termination instead of the severance liability that would otherwise be payable under the law as aforementioned. Upon contribution to a fund, based on the full amount of the employee's monthly salary, and release of the fund to the employee, no additional severance payments are required to be made by the Company to the employee. Therefore, the related obligation and amounts deposited on behalf of such obligation are not stated on the balance sheet, as the Company is legally released from obligation to such employees once the deposit amounts have been paid.

The Company's liability for severance pay to its Israel-based employees not under Section 14, is calculated pursuant to Israel's Severance Pay Law based on the most recent monthly salaries of such employees, multiplied by the number of years of their employment, or a portion thereof, as of the balance sheet date. This liability is fully provided for by monthly deposits in insurance policies and by an accrual. The deposited funds include profits and losses accumulated up to the balance sheet date and they may be withdrawn only upon the fulfillment of the obligation pursuant to Israel's Severance Pay Law.

Severance expenses from continuing operations for the years ended December 31, 2015, 2016 and 2017 amounted to \$2,310, \$2,917 and \$2,039, respectively. The balances of severance deposits and accrued severance pay are immaterial and included in other assets and other long-term liabilities on the accompanying balance sheets, respectively.

*Employee benefit plan*

The Company's U.S. operations maintain a retirement plan (the "U.S. Plan") that qualifies as a deferred salary arrangement under Section 401(k) of the Internal Revenue Code. Participants in the U.S. Plan may elect to defer a portion of their pre-tax earnings, up to the Internal Revenue Service's annual contribution limit. The Company matches 100% of each participant's contributions, up to 3% of employee deferral, and 50% of the next 2% of employee deferral. Contributions to the U.S. Plan are recorded during the year contributed as an expense in the consolidated statement of income.

Total employer 401(k) contributions for the years ended December 31, 2015, 2016 and 2017 were \$247, \$1,018 and \$2,765, respectively.

*Comprehensive income (loss)*

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

*Net earnings per share*

In accordance with ASC 260, "Earnings Per Share", basic net earnings per share ("Basic EPS") is computed by dividing net earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. Diluted net earnings per share ("Diluted EPS") reflects the potential dilution that could occur if stock options and other commitments to issue ordinary shares were exercised or equity awards vested, resulting in the issuance of ordinary shares that could share in the net earnings of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

The weighted average number of ordinary shares related to the outstanding options, restricted shares, convertible debt and warrants excluded from the calculations of diluted net earnings per ordinary share, as these securities are anti-dilutive, was 14,179,439, 10,700,363 and 16,224,618 for the years ended December 31, 2015, 2016 and 2017, respectively.

*Concentrations of credit risk*

Financial instruments, which potentially subject the Company to a concentration of credit risk, consist primarily of cash and cash equivalents, bank deposits, restricted cash and accounts receivable.

The majority of the Company's cash and cash equivalents, bank deposits and restricted cash are invested in USD instruments with major banks in the U.S. and Israel. Deposits in the U.S. may be in excess of insured limits and are not insured in other jurisdictions. Generally, these deposits may be redeemed upon demand and, therefore, bear minimal risk.

The Company's major customers are financially sound, and the Company believes low credit risk is associated with these customers. To date, the Company has not experienced any material bad debt losses. Total expenses for doubtful debts during 2015, 2016 and 2017 amounted to \$104, \$152 and \$230, respectively.

*Stock-based compensation*

The Company accounts for stock-based compensation under ASC 718, "Compensation - Stock Compensation", which requires the measurement and recognition of compensation expense based on estimated fair values for all share-based payment awards made to employees and directors. ASC 718 requires companies to estimate the fair value of equity-based awards on the date of grant, using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as an expense over the requisite service periods in the Company's consolidated statement of income. The Company estimates forfeitures to be estimated at the time of grant, and revised if necessary in subsequent periods, if actual forfeitures differ from those estimates.

The Company recognizes compensation expenses for the value of its awards, which have graded vesting based on service conditions, using the straight-line method, over the requisite service period of each of the awards, net of estimated forfeitures. Estimated forfeitures are based on actual historical pre-vesting forfeitures. For performance-based stock units, the Company recognizes compensation expenses for the value of such awards, if and when the Company concludes that it is probable that a performance condition will be achieved based on the accelerated attribution method over the requisite service period. The Company should reassess the probability of vesting at each reporting period for awards with performance conditions and adjust compensation cost based on its probability assessment.

The Company accounted for changes in award terms as a modification in accordance with ASC 718. A modification to the terms of an award should be treated as an exchange of the original award for a new award with total compensation cost equal to the grant-date fair value of the original award plus the incremental value measured at the same date. Under ASC 718, the calculation of the incremental value is based on the excess of the fair value of the new (modified) award based on current circumstances over the fair value of the original award measured immediately before its terms are modified based on current circumstances.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

The Company estimates the fair value of its new stock-based awards using the Binomial option-pricing model.

The following table presents the various assumptions used to estimate the fair value of the Company's stock-based awards granted to employees and directors in the periods presented:

	Year ended December 31		
	2015	2016	2017
Risk-free interest rate	0.17% - 1.76%	0.46% - 1.73%	0.81% - 2.08%
Expected volatility	43.49% - 50.31%	49.49% - 53.54%	52% - 56%
Early exercise factor	160% - 210%	150% - 200%	150% - 200%
Forfeiture rate post vesting	0% - 18%	5% - 20%	0% - 23%
Dividend yield	0%	0%	0%

The expected volatility is calculated based on the actual historical stock price movements of the Company's stock.

The expected option term represents the period that the Company's stock options are expected to be outstanding.

The early exercise factor and the forfeiture rate post-vesting are calculated based on the Company's estimated early exercise and post-vesting forfeiture multiples, which are based on comparable companies and on actual historical data.

The risk-free interest rate is based on the yield from U.S. Treasury zero-coupon bonds, with a term which is equivalent to the expected term of the stock-based awards. The dividend yield is based on the current decision of the Company's management not to distribute any dividends.

The fair value of restricted stock units ("RSU") is based on the market value of the underlying shares on the date of grant.

*Derivative instruments*

The Company accounts for derivatives and hedging based on ASC 815, "Derivatives and Hedging", which requires recognizing all derivatives on the balance sheet at fair value. If the derivatives meet the definition of a cash flow hedge and are so designated, depending on the nature of the hedge, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income and reclassified into earnings in the same period, or periods, during which the hedged transaction affects earnings. The ineffective portion of a derivative's change in fair value, if any, is recognized in earnings, as well as gains and losses from a derivative's change in fair value that are not designated as hedges are recognized in earnings immediately.

Starting 2014, in order to mitigate the potential adverse impact on cash flows resulting from fluctuations in the exchange rate of the new Israeli shekels ("ILS"), the Company started to hedge portions of its forecasted expenses denominated in ILS with swap and options contracts. The Company does not speculate in these hedging instruments in order to profit from foreign currency exchanges, nor does it enter into trades for which there are no underlying exposures.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

To protect against the increase in value of forecasted foreign currency cash flow resulting mainly from salaries and related benefits and taxes paid in ILS during the year, the Company hedges portions of its anticipated payroll denominated in ILS for a period of one to twelve months with forward and options contracts (the "Hedging Contracts"). Accordingly, when the USD strengthens against the ILS, the decline in present value of future ILS currency expenses is offset by losses in the fair value of the Hedging Contracts. Conversely, when the USD weakens, the increase in the present value of future ILS expenses is offset by gains in the fair value of the Hedging Contracts. These Hedging Contracts are designated as cash flow hedges.

The Company follows the requirements of ASC No. 815, "Derivatives and Hedging" ("ASC 815"), which requires companies to recognize all of their derivative instruments as either assets or liabilities on the balance sheet at fair value. The accounting for changes in fair value (i.e. gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging transaction and further, on the type of hedging transaction. For those derivative instruments that are designated and qualify as hedging instruments, a company must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge, cash flow hedge, or a hedge of a net investment in a foreign operation.

Additionally, in order to mitigate the potential adverse impact of the fluctuations in the ILS-USD exchange rate in connection with the convertible debt (see Note 10), the Company has entered into a cross currency interest rate SWAP agreement (the "SWAP") in order to hedge the future interest and principal payments, which are all denominated in ILS. However, since the convertible debt is measured at fair value at each reporting date, the SWAP does not qualify and was not designated as hedge under ASC 815. Therefore, gains or losses resulting from the change of the SWAP's fair value are recognized immediately as incurred in "financial expenses, net". The Company measured the fair value of these contracts in accordance with ASC 820, "Fair Value Measurement and Disclosures", and they were classified as level 2.

In order to limit the Company's interest expenses derived from the secured credit agreement in which the Company entered concurrently with the closing of the Undertone acquisition (see Note 6), the Company has purchased a Cap Option for the interest amounts expected to be paid till June 2018. The cap option is designated as cash flow hedge under ASC 815.

The notional value of the Company's derivative instruments as of December 31, 2016 and 2017, amounted to \$72,569 and \$51,504, respectively. Notional values in USD are translated and calculated based on the spot rates for options and swap. Gross notional amounts do not quantify risk or represent assets or liabilities of the Company; however, they are used in the calculation of settlements under the contracts.

*Fair value of financial instruments*

The carrying amounts of financial instruments carried at cost, including cash and cash equivalents, short-term deposits, restricted cash, accounts receivable, prepaid expenses and other assets, accounts payable, accrued expenses and other liabilities approximate their fair value due to the short-term maturities of such instruments.

The Company follows the provisions of ASC No. 820, "Fair Value Measurement" ("ASC 820"), which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

In determining a fair value, the Company uses various valuation approaches. ASC 820 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing an asset or liability, based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect assumptions that market participants would use in pricing an asset or liability, based on the best information available under given circumstances.

The hierarchy is broken down into three levels, based on the observability of inputs and assumptions, as follows:

- Level 1 - Observable inputs obtained from independent sources, such as quoted prices for identical assets and liabilities in active markets.
- Level 2 - Other inputs that are directly or indirectly observable in the market place.
- Level 3 - Unobservable inputs which are supported by little or no market activity.

*Treasury shares*

In the past, the Company repurchased its ordinary shares on the open market. The Company holds those shares as treasury shares and presents their cost as a reduction of shareholders' equity.

*Business combinations*

The Company accounted for business combination in accordance with ASC 805, "Business Combinations". ASC 805 requires recognition of assets acquired, liabilities assumed, and any non-controlling interest at the acquisition date, measured at their fair values as of that date. Any excess of the fair value of net assets acquired over purchase price is allocated to goodwill and any subsequent changes in estimated contingencies are to be recorded in earnings. In addition, changes in valuation allowance related to acquired deferred tax assets and in acquired income tax position are to be recognized in earnings.

Acquisition related costs are expensed to the statement of income in the period incurred.

*Discontinued operations*

Under ASC 205, "Presentation of Financial Statements - Discontinued Operation", when a component of an entity, as defined in ASC 205, has been disposed of or is classified as held for sale, the results of its operations, including the gain or loss on its disposal are classified as discontinued operations and the assets and liabilities of such component are classified as assets and liabilities attributed to discontinued operations, provided that the operations, assets and liabilities and cash flows of the component have been eliminated from the entity's consolidated operations and the entity will no longer have any significant continuing involvement in the operations of the component.

In August 2016, the Company completed the sale of its Grow Mobile Engagement ("GME") business for a total consideration of \$1,750, which was included in net loss from discontinued operations in the consolidated statement of income for the year ended December 31, 2016.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

The results of the discontinued operations, including prior periods' comparable results, which have been retroactively reclassified as a separate line items in the statements of income, are presented below:

	Year ended December 31,	
	2015	2016*
Costs and expenses	7,444	5,192
Impairment of intangible assets and goodwill	19,555	-
Gain on disposal of the discontinued operations	-	(1,750)
Loss before taxes on income	(26,999)	(3,442)
Taxes on income	-	795
Total net loss on discontinued operations	\$ (26,999)	\$ (2,647)

Depreciation expenses from discontinued operations totaled \$550 and \$71 and \$0, for the years ended December 31, 2015, 2016 and 2017, respectively.

\* Represent the results of the discontinued operations until their disposal.

*Reclassifications*

Certain items of expense for the fiscal year of 2016 have been reclassified to conform to current year financial statement presentation.

*Recent Accounting Pronouncements*

In May 2014, the FASB issued Accounting Standards Update No. 2014-09 (ASU 2014-09) "Revenue from Contracts with Customers." ASU 2014-09 supersedes the revenue recognition requirements in "Revenue Recognition (Topic 606)", and requires entities to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. Topic 606 was further amended during 2016 as follows:

- In March 2016, by ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which clarifies the implementation guidance on principal versus agent considerations. The guidance includes indicators to assist an entity in determining whether it controls a specified good or service before it is transferred to the customers.
- In April 2016, by 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, that clarified two aspects of ASC 606, identifying performance obligations and the licensing implementation guidance, while retaining the related principles of those areas.
- In May 2016, by ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients. ASU 2016-12 address certain issues in the guidance on assessing collectability, presentation of sales taxes, noncash consideration, and completed contracts and contract modifications at transition.

The new standard further requires new disclosures about contracts with customers, including the significant judgments the company has made when applying the guidance.

As currently issued and amended, ASC 606 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period, using either of two methods: (1) full retrospective application or (2) modified retrospective application. The Company will adopt the new standard effective January 1, 2018, using the modified retrospective transition method. The Company finalized its analysis and the adoption of this guidance will not have a material impact on its consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

In February 2016, the FASB issued ASU 2016-02, Leases. ASU 2016-02 requires that long-term lease arrangements be recognized on the balance sheet. The standard is effective for interim and annual periods beginning after December 15, 2018, and early adoption is permitted. The Company is currently evaluating the impact of adoption on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718), Improvements to Employee Share-Based Payment Accounting. The ASU simplifies several aspects of the accounting for share-based payment transaction, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. The Company adopted ASU 2016-09 on January 1, 2017, and chose to continue to use the current method of estimating forfeitures each period rather than accounting for forfeitures as they occur. The adoption of the new standard had no material impact on the Company's consolidated financial statements.

In November 2016, the FASB issued Accounting Standards Update (ASU) 2016-18, Statement of Cash Flows: Restricted Cash, providing specific guidance on the cash flow classification and presentation of changes in restricted cash and restricted cash equivalents. Amounts generally described as restricted cash should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flow. The amendments in ASU 2016-18 are effective for fiscal years beginning after December 15, 2017, and interim periods therein. Early adoption is permitted, including adoption in an interim period. The standard requires application retrospective transition method.

In January 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2017-04, "Intangibles—Goodwill and Other (Topic 350): - Simplifying the Test for Goodwill Impairment", which eliminates the requirement to calculate the implied fair value of goodwill (i.e., Step 2 of the goodwill impairment test) for the purpose of measuring a goodwill impairment charge. Instead, an impairment charge shall be recognized based on the excess of a reporting unit's carrying amount over its fair value. The standard shall be applied prospectively and is effective for annual and interim impairment tests performed in periods beginning after December 15, 2019, for public entities. Early adoption is permitted for annual and interim goodwill impairment testing dates after January 1, 2017. The Company adopted the new guidance on January 1, 2017 (refer also to Note 6).

In August 2017, the FASB issued ASU No. 2017-12 (Topic 815) Derivatives and Hedging — Targeted Improvements to Accounting for Hedging Activities, which expands an entity's ability to hedge financial and nonfinancial risk components and amends how companies assess effectiveness as well as changes the presentation and disclosure requirements. The new standard is to be applied on a modified retrospective basis and is effective for interim and annual periods beginning after December 15, 2018, with early adoption permitted. The Company is currently evaluating the impact of adoption on the Consolidated Financial Statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 3: FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table present assets and liabilities measured at fair value on a recurring basis as of December 31, 2017:

	Fair value measurements using input type			
	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Derivative assets	\$ -	\$ 3,486	\$ -	\$ 3,486
<b>Total financial assets</b>	<b>\$ -</b>	<b>\$ 3,486</b>	<b>\$ -</b>	<b>\$ 3,486</b>
<b>Liabilities:</b>				
Payment obligation in connection with acquisitions	\$ -	\$ -	\$ -	\$ -
Convertible bonds	25,353	-	-	25,353
<b>Total financial liabilities</b>	<b>\$ 25,353</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 25,353</b>

The following table present assets and liabilities measured at fair value on a recurring basis as of December 31, 2016:

	Fair value measurements using input type			
	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Derivative assets	\$ -	\$ 1,117	\$ -	\$ 1,117
<b>Total financial assets</b>	<b>\$ -</b>	<b>\$ 1,117</b>	<b>\$ -</b>	<b>\$ 1,117</b>
<b>Liabilities:</b>				
Payment obligation in connection with acquisitions	\$ -	\$ -	\$ 2,507	\$ 2,507
Derivative liabilities	-	84	-	84
Convertible bonds	29,526	-	-	29,526
<b>Total financial liabilities</b>	<b>\$ 29,526</b>	<b>\$ 84</b>	<b>\$ 2,507</b>	<b>\$ 32,117</b>

The following table summarizes the changes in the Company's liabilities measured at fair value using significant unobservable inputs (Level 3), during the year ended December 31, 2016 and 2017:

<b>Total fair value as of January 1, 2016</b>	<b>\$ 43,978</b>
Accretion and interest of payment obligation related to acquisition	\$ 1,303
Settlements	(7,537)
Change to payment obligation as a result of working capital adjustment	309
Amendment to the merger agreement	(35,546)
<b>Total fair value as of December 31, 2016</b>	<b>\$ 2,507</b>
Accretion and interest of payment obligation related to acquisition	\$ 44
Settlements	(2,551)
<b>Total fair value as of December 31, 2017</b>	<b>\$ -</b>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

**NOTE 4: ACQUISITIONS**

## a. Interactive Holding Corp.

On November 30, 2015, The Company executed an Agreement and Plan of Merger (the "Merger Agreement") pursuant to which the Company consummated, on the same date, the acquisition of 100% of the shares of Interactive Holding Corp., a Delaware corporation, and its subsidiaries (collectively referred to as "Undertone") for a total preliminary purchase price of \$133,101, comprised of the following:

1. \$89,078 paid in cash on November 30, 2015;
2. \$1,182 paid in cash on January 29, 2016;
3. \$2,143 excess tax advances paid in 2016 upon refund from tax authorities (and additional amount of \$551 was paid in 2017);
4. \$3,000 to be paid in installments until September 2017, for which a liability of \$2,804 was recorded at fair value. In 2016, an amount of \$1,000 was paid after which, the fair value of the remaining liability was \$1,939 as of December 31, 2016, and the remaining amount, including accrued interest thereon of \$83 was paid during 2017;
5. \$16,000 were retained as a holdback to cover potential claims until May 31, 2017, for which a liability of \$14,391 was recorded at fair value (\$14,129 at August 2, 2016), and an amount of \$20,000, deferred consideration payment, bearing 10% annual interest, to be paid on November 2020, for which a liability of \$22,005 was recorded at fair value \$21,417 at August 2, 2016).
6. Working capital adjustment in the amount of \$1,498.

In addition to the purchase price detailed above, the Company incurred acquisition related costs totaling \$4,804, which were included in general and administrative expenses. Acquisition related costs included banking, legal and accounting fees, as well as other external costs directly related to the acquisition.

Adjustments to purchase price:

On August 2, 2016, the Company executed an amendment to the Merger Agreement, pursuant to which, the Company paid \$22,000 and eliminated \$35,546 at fair value, of obligations. Under said amendment, the Company reserved its right to claim indemnification only for certain material potential claims until May 2017. As a result of the amendment, the Company reduced the purchase price by \$13,546.

Final purchase price amounted to \$119,768 including a working capital final adjustment of \$213 in 2016.

Adjustments to the purchase price allocation:

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

As of December 31, 2015, the estimated fair values were preliminary and based on the information that was available as of the closing date. In 2016, the Company recognized an adjustment of \$590 to the goodwill balance, as a result of changes made to the preliminary amounts recognized for assets and liabilities, during the measurement period. As of December 31, 2016, the Company finalized the valuation and completed the purchase price allocation. The final allocation of the purchase price, to assets acquired and liabilities assumed, is as follows:

Cash and cash equivalents	\$ 7,378
Accounts receivable	38,493
Prepaid expenses and other assets	4,427
Long term restricted cash	1,182
Property and equipment	1,905
Deferred taxes	815
Accounts payable	(23,152)
Accrued expenses and other liabilities	(11,083)
Deferred revenues	(1,047)
Long term loan, including current maturities	(48,601)
Deferred tax liability	(20,241)
Intangible assets	63,200
Goodwill	106,492
<b>Total purchase price</b>	<b>\$ 119,768</b>

The main reason for the acquisition was to continue the strategic evolution of the Company into a global technology company delivering high-quality advertising solutions to brands and publishers. The desired strategic benefits were to create a differentiated independent ad tech platform with significant scale and profitability, add noteworthy relationships with premium brands, agencies and publishers, enhance mobile footprint, extend programmatic capabilities, broaden product suite with the addition of proprietary, high-impact creative formats and substantially diversify revenue base.

Under business combination accounting principles, the total purchase price was allocated to Undertone's net tangible and intangible assets based on their estimated fair values as set forth below. The excess of the purchase price over the net tangible and identifiable intangible assets was recorded as goodwill. The goodwill is attributable primarily to the strategic opportunities aforementioned. The related goodwill and intangible assets are not deductible for tax purposes.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## Intangible assets:

The fair value of intangible assets was based on the market participant approach to valuation, performed by a third-party valuation firm, using estimates and assumptions provided by management. The following table sets forth the components of intangible assets associated with the Undertone acquisition:

	<u>Fair value</u>	<u>Estimated useful life</u>
Acquired technology (1)	\$ 19,500	5 years
Customer relationships (2)	30,000	6 years
Backlog (3)	4,200	less than 1 year
Tradename (4)	<u>9,500</u>	4 years
Total amount allocated to intangible assets	<u>\$ 63,200</u>	

- (1) Acquired technology represents the combined technology for delivering and administering Undertone's attention-grabbing, full-page video advertisements and other advertising formats.
- (2) Customer relationships represent the existing relationships and agreements with Undertone's brand advertisers.
- (3) Backlog represents customer insertion orders that are highly probable to be turned into revenues in the near future.
- (4) Tradename represents trade names and logos under which Undertone markets and sells its services.

## b. Make Me Reach SAS

On February 10, 2015, the Company consummated the acquisition of 100% of the shares of Make Me Reach SAS, a private French company headquartered in Paris, France ("MMR"). MMR enables advertisers to efficiently and effectively scale their advertising campaigns on social media, with a specific focus on optimizing mobile ad campaigns. MMR is a Facebook Preferred Marketing Developer (PMD) and Twitter Marketing Platform Partner (MPP).

The acquisition of MMR is part of the Company's strategy to channel its future growth efforts towards the mobile advertising market, to extend its mobile marketing technology by adding the ability to advertise on social media and to provide developers a more effective mobile advertising tool. Additionally, the acquisition of MMR established the Company's first office in Europe.

The acquisition has been accounted for as a business combination under ASC No. 805, "Business Combination". The purchase price was \$6,394 in cash and \$4,378 in the form of 1,437,510 ordinary shares. In the subsequent 12 months, the Company was required to pay additional \$442 in cash and issued an additional \$442 in ordinary shares to the founder of MMR, subject to retention conditions, which were paid in full in February 2016. In addition, certain key employees of MMR were entitled to retention payments of \$144 in cash and \$63 in the form of 18,998 ordinary shares, which were paid upon closing. An additional \$266 in cash and \$208 in the form of 92,348 ordinary shares that were subject to retention conditions, were paid to such key employees in February 2016. Amounts subject to retention conditions were included as payroll expenses in the statement of operations.

In addition, the Company incurred acquisition related costs totaling \$139, included in general and administrative expenses. Acquisition related costs include legal and accounting fees, as well as other external costs directly related to the acquisition.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

The allocation of the purchase price to assets acquired and liabilities assumed was as follows:

Cash	\$ 1,050
Accounts receivable	666
Prepaid expenses and other assets	86
Property and equipment	87
Accounts payable	(305)
Accrued expenses and other liabilities	(433)
Deferred revenues	(126)
Deferred tax liability	(1,159)
Intangible assets	3,454
Goodwill	7,452
Total purchase price	<u>\$ 10,772</u>

The following table sets forth the components of intangible assets associated with the acquisition:

	<u>Fair value</u>	<u>Estimated useful life</u>
Acquired technology	\$ 1,261	5 years
Customer relationship	395	5 years
Distribution channel	<u>1,798</u>	5 years
Total amount allocated to intangible assets	<u>\$ 3,454</u>	

In performing the purchase price allocation, the Company considered, among other factors, analysis of historical financial performance, the best use of the acquired assets and estimates of future performance of MMR's products. In its allocation, the Company also conducted a valuation of intangible assets based on a market participant approach to valuation using an income approach and in connection therewith considered the report of an independent third party valuation firm and estimates and assumptions provided by management.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 5: PROPERTY AND EQUIPMENT, NET

	December 31,	
	2016	2017
Cost:		
Computers and peripheral equipment	\$ 9,607	\$ 10,295
Office furniture and equipment	2,679	2,811
Leasehold improvements	7,142	7,779
Capitalized software	5,005	10,650
Total cost	24,433	31,535
Less: accumulated depreciation and amortization	(10,228)	(14,059)
Property and equipment, net	<u>\$ 14,205</u>	<u>\$ 17,476</u>

Depreciation and amortization from continued operations totaled \$2,543, \$4,003 and \$3,567, for the years ended December 31, 2015, 2016 and 2017, respectively.

In connection with its 2015 restructuring plan, the Company recorded an impairment of \$159 relating to disposal of certain office furniture and equipment (see Note 16) which are included in restructuring charges in the statement of income. In addition, in connection with its Growmobile platforms, the Company impaired software capitalized costs of \$3,390, which are included as part of the loss from discontinued operations during 2015. No impairment was recognized during 2016 and 2017.

During 2017, the Company capitalized software development costs of \$5,756 (including \$31 of stock-based compensation). Amortization expense for the related capitalized internally developed software in 2017 totaled \$843 and is included in Depreciation and amortization in the consolidated statements of income. During 2016, the Company capitalized software development costs of \$4,591 (including \$14 of stock-based compensation). Amortization expense for the related capitalized internally developed software in 2016 totaled \$769 and is included in Net loss from discontinued operations in the accompanying consolidated statements of operations.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

**NOTE 6: GOODWILL AND OTHER INTANGIBLE ASSETS, NET**

## a. Goodwill

The changes in the net carrying amount of goodwill in 2016 and 2017 were as follows:

<b>Balance as of January 1, 2016</b>	<b><u>\$ 203,693</u></b>
Acquisition of Undertone	<u>(12,956)</u>
<b>Balance as of December 31, 2016</b>	<b>\$ 190,737</b>
Impairment on Undertone's goodwill	<u>(65,686)</u>
<b>Balance as of December 31, 2017</b>	<b><u>\$ 125,051</u></b>

Goodwill has been recorded as a result of prior acquisitions and represents excess of the consideration over the net fair value of the assets of the businesses acquired. As of December 31, 2017, the Company has two reporting units – Search monetization and Undertone. The Company performs tests for impairment of goodwill at the reporting unit level at least annually, or more frequently if events or changes in circumstances occur that would more likely than not reduce the fair value of a reporting unit below its carrying value. During 2017, the Company determined that certain indicators of potential impairment existed with regards to its Undertone's reporting unit which required interim goodwill impairment analysis. These indicators included lower than expected revenues and cash flow and future performance expectations.

Accordingly, the Company compared the fair value of the Undertone reporting unit to its carrying value and determined that the carrying amount of the reporting unit exceeded its fair value. Judgments and assumptions related to revenue, operating income, future short-term and long-term growth rates, weighted average cost of capital, interest, capital expenditures, cash flows, and market conditions are inherent in developing the discounted cash flow model. The assumptions used were based on expected future cash flows and an estimated terminal value using a terminal year growth rate of 3% based on the growth prospects for the reporting unit. The Company used an applicable discount rate of 15.7%, which reflected the associated specific risks for the reporting unit's future cash flows. As a result, the Company recorded an impairment charge of \$65,686 in 2017, classified as "Impairment charges" in the consolidated statements of income.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## b. Intangible assets, net

The following is a summary of intangible assets as of December 31, 2017:

	December 31, 2016	Amortization	OCI	Impairment	December 31, 2017
<b>Acquired technology</b>	\$ 30,674	\$ -	\$ 163	-	\$ 30,837
Accumulated amortization	(14,490)	(5,390)	(79)	-	(19,959)
Impairment	(956)	-	-	(7,793) *	(8,749)
<b>Acquired technology, net</b>	<b>15,228</b>	<b>(5,390)</b>	<b>84</b>	<b>(7,793)</b>	<b>2,129</b>
<b>Customer relationships</b>	<b>31,898</b>	<b>-</b>	<b>51</b>	<b>-</b>	<b>31,949</b>
Accumulated amortization	(13,905)	(4,900)	(27)	-	(18,832)
Impairment	(91)	-	-	(10,335) *	(10,426)
<b>Customer relationships, net</b>	<b>17,902</b>	<b>(4,900)</b>	<b>24</b>	<b>(10,335)</b>	<b>2,691</b>
<b>Tradename and other</b>	<b>18,224</b>	<b>-</b>	<b>233</b>	<b>-</b>	<b>18,457</b>
Accumulated amortization	(4,079)	(2,734)	(45)	-	(6,858)
Impairment	(3,257)	-	-	(1,853) *	(5,110)
<b>Tradename and other, net</b>	<b>10,888</b>	<b>(2,734)</b>	<b>188</b>	<b>(1,853)</b>	<b>6,489</b>
<b>Intangible assets, net</b>	<b>\$ 44,018</b>	<b>\$ (13,024)</b>	<b>\$ 296</b>	<b>\$ (19,981)</b>	<b>\$ 11,309</b>

\*) Calculated based on the Income approach (discounted cash flow model), using a discount rate of 15.7%

The following is a summary of intangible assets as of December 31, 2016:

	December 31, 2015	Amortization	OCI	Impairment	December 31, 2016
<b>Acquired technology</b>	\$ 30,715	\$ -	\$ (41)	-	\$ 30,674
Accumulated amortization	(8,963)	(5,543)	16	-	(14,490)
Impairment	(956)	-	-	-	(956)
<b>Acquired technology, net</b>	<b>20,796</b>	<b>(5,543)</b>	<b>(25)</b>	<b>-</b>	<b>15,228</b>
<b>Customer relationships</b>	<b>31,911</b>	<b>-</b>	<b>(13)</b>	<b>-</b>	<b>31,898</b>
Accumulated amortization	(1,161)	(12,750)	6	-	(13,905)
Impairment	(91)	-	-	-	(91)
<b>Customer relationships, net</b>	<b>30,659</b>	<b>(12,750)</b>	<b>(7)</b>	<b>-</b>	<b>17,902</b>
<b>Tradename and other</b>	<b>22,483</b>	<b>-</b>	<b>(59)</b>	<b>(4,200)</b>	<b>18,224</b>
Accumulated amortization	(4,609)	(3,681)	11	4,200	(4,079)
Impairment	(3,257)	-	-	-	(3,257)
<b>Tradename and other, net</b>	<b>14,617</b>	<b>(3,681)</b>	<b>(48)</b>	<b>-</b>	<b>10,888</b>
<b>Intangible assets, net</b>	<b>\$ 66,072</b>	<b>\$ (21,974)</b>	<b>\$ (80)</b>	<b>\$ -</b>	<b>\$ 44,018</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

The estimated useful life of the intangible assets are as follows:

	<u>Estimated useful life</u>
Acquired technology	3-5 years
Customer relationships	4-5 years
Tradename and other	4-11 years

Amortization of intangible assets, net, in each of the succeeding five years and thereafter is estimated as follows:

2018	\$ 4,823
2019	4,238
2020	1,262
2021	229
2022	240
Thereafter	517
	<u>\$ 11,309</u>

## NOTE 7: ACCRUED EXPENSES AND OTHER LIABILITIES

	<u>December 31,</u>	
	<u>2016</u>	<u>2017</u>
Employees and payroll accruals	\$ 7,668	\$ 8,020
Government authorities	2,929	2,427
Professional services accruals	1,812	1,886
Other accruals	3,549	4,155
Other overhead related expenses	991	885
Hosting, software and web services accruals	433	411
Derivative liabilities	84	-
	<u>\$ 17,466</u>	<u>\$ 17,784</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

**NOTE 8: DERIVATIVES AND HEDGING ACTIVITIES**

The fair value of the Company's outstanding derivative instruments is as follows:

	Balance sheet	December 31,	
		2016	2017
<b>Derivatives designated as hedging instruments:</b>			
Foreign exchange forward contracts and other derivatives	"Prepaid expenses and other current assets"	\$ 125	\$ 140
	"Accrued expenses and other liabilities"	84	-
	"Accumulated other comprehensive income"	36	116
<b>Derivatives not designated as hedging instruments:</b>			
Foreign exchange forward contracts and other derivatives	"Prepaid expenses and other current assets"	20	\$ -
Cross currency SWAP	"Prepaid expenses and other current assets"	\$ 973	\$ 3,346

As of December 31, 2017, the Company estimates that \$140 of the net derivative gains related to its cash flow hedges included in accumulated other comprehensive income will be reclassified into earnings within the next 12 months when the underlying hedged item impacts earnings.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

The net losses reclassified from accumulated other comprehensive loss to the operating expenses are as follows:

	Gain recognized in Statements of Comprehensive Income		Gain (loss) recognized in consolidated statements of Income		
	Year ended December 31,		Year ended December 31,		
	2017	Statement of Income item	2015	2016	2017
<b>Derivatives designated as hedging instruments:</b>					
Foreign exchange options and forward contracts	\$ 80	"Operating expenses"	\$ 178	\$ 167	\$ 525
<b>Derivatives not designated as hedging instruments:</b>					
Foreign exchange options and forward contracts		"Financial expenses"	(175)	(16)	132
SWAP		"Financial expenses"	225	608	2,373
<b>Total</b>	<b>\$ 80</b>		<b>\$ 228</b>	<b>\$ 759</b>	<b>\$ 3,030</b>

**NOTE 9: SHORT TERM AND LONG-TERM DEBT**

- On May 17, 2012, the Company entered into loan agreements, with two Israeli Banks, pursuant to which the Company borrowed a total of \$10,000. As of December 31, 2016, the Company fully repaid one of the loans, and the outstanding balance of \$400 was fully repaid on April 2017.
- On November 30, 2015, concurrently with the closing of the Undertone acquisition, Interactive Holding Corp. entered into a new secured credit agreement for \$50,000, due in quarterly installments from March 2016 to November 2019. The installments started at \$625 per quarter, increase to \$1,250 per quarter in March 2018 and require a final payment upon maturity of \$35,000. The outstanding principal bears interest at LIBOR plus 5.5% per annum and is secured by substantially all the assets of the companies in the Undertone group and by guarantees of such companies. The credit is required to be prepaid by Undertone in certain circumstances, such as from proceeds of asset sales or casualty insurance policies, debt or equity offerings, or from excess cash flow in the event that Undertone's total leverage ratio exceeds specified targets, and a pro rata portion of indemnification payments (or offset of the holdback amount) under the Merger Agreement. The debt issuance cost amounted to \$1,399, which was deducted from the carrying amount of that debt in the consolidated balance sheets and amortized during the term of the loan as interest expense according to the effective interest method.

According to the credit agreement, Undertone has the option for prepayment, which shall be applied to principal installments as specified by Undertone. In 2016, Undertone prepaid \$5,000, which was applied to the final principal upon maturity. In May 2017, Undertone prepaid an additional \$5,000, which was applied to the final principal upon maturity. In November 2017, Undertone opted to exercise its equity cure right to cure certain financial covenant defaults for the fiscal quarter ending September 30, 2017. To this extent, Undertone paid \$1,580 which was applied to subsequent amortization payments in the direct order of maturity. In connection with the exercise of this equity cure, Undertone paid an additional \$264 which was applied to the amortization payment for December 31, 2017. As of December 31, 2017, the principal outstanding balance was \$32,343.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Under said credit facility, Undertone is required to maintain financial covenants as of the end of each fiscal quarter as set forth in the credit facility. The Company's covenants obligations related to its secured credit agreement with respect to the fiscal quarter ending December 31, 2017 have been waived. On March 6, 2018, the Company entered into a fourth amendment to its secured credit agreement which provides for a waiver of the financial covenants of the quarter ending December 31, 2017, and provides covenants relief. The Amendment also provides for additional covenant relief for every \$2,000 increment of voluntary prepayments on the term loan up to \$4,000. The Amendment was conditioned upon an \$8,000 prepayment of the term loan, which took place the same date.

The Company expects to meet its new covenants in accordance with the renegotiated terms in each of the fiscal quarters of 2018.

3. On November 22, 2015, the Company borrowed \$19,900 under a credit facility from an Israeli Bank. The credit facility was secured by a lien on the accounts receivable of ClientConnect Ltd., an Israeli subsidiary of Perion, from its current and future business clients and was guaranteed by Perion. In November 2016, the Company repaid the credit facility in full.
4. On November 28, 2016, the Company borrowed \$7,000 under a credit facility from the same Israeli bank. The credit facility is guaranteed by a lien on the accounts receivable of ClientConnect Ltd., from its current and future business clients and is guaranteed by Perion. As of December 31, 2016, the utilized balance of the credit facility was \$7,000 bearing annual interest of LIBOR + 3.3%. On January 26, 2017, the Company repaid the credit facility.
5. On May 9, 2017, the Company secured \$17.5 million under a new credit facility from an Israeli bank. \$17.5 million includes \$12.5M revolving credit line and \$5M term loan. The \$12.5M credit facility is secured, among other, by a lien on the accounts receivable of ClientConnect Ltd., an Israeli subsidiary, from its current and future business clients. Both facilities are guaranteed by Perion. Out of the total credit facility, \$5.0 million is a long-term loan bearing interest at LIBOR plus 5% per annum, to be repaid in 36 equal installments starting from June 30, 2017, and a \$12.5 million revolving credit line bearing interest at LIBOR plus 3.5% per annum. As of December 31, 2017, the remaining balance of the loan was \$4.1 million. The \$12.5 million credit line is available until May 15, 2020 and is not utilized as of December 31, 2017.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

As of December 31, 2017, the aggregate principal annual maturities according to all of the above loan agreements were as follows:

	<b>Repayment amount</b>
2018	\$ 6,102
2019	29,714
2020	<u>694</u>
Total principal payments	36,510
Less: unamortized original issue discount	<u>(842)</u>
Present value of principal payments	35,668
Less: current portion	<u>(5,642)</u>
Long-term debt	<b><u>\$ 30,026</u></b>

**NOTE 10: CONVERTIBLE DEBT**

In September 2014, the Company completed a public offering in Israel of its Series L Convertible Bonds (the "Bonds"), with an aggregate par value of approximately ILS 143,500, out of which, as of December 31, 2017, approximately ILS 86,092 was outstanding, (approximately \$24,832 as of December 31, 2017). The Bonds were issued at a purchase price equal to 96.5% of their par value and bear annual interest at a rate of 5%, payable semi-annually, subject to a possible increase up to 6% in the event and to the extent the Company's debt rating is downgraded. The Bonds' principal, denominated in ILS, is repayable in five equal annual instalments commenced on March 31, 2016.

The Bonds are convertible, at the election of each holder, into the Company's ordinary shares at a conversion price of ILS 33.605 per share (\$9.69 on December 31, 2017) from the date of issuance and until March 15, 2020. The ordinary shares issued upon conversion of the Bonds will be listed on the NASDAQ Stock Market ("Nasdaq") and the Tel-Aviv Stock Exchange ("TASE"), to extent that the Company's ordinary shares are listed thereon at the time of conversion. The conversion price is subject to adjustment in the event that the Company effects a share split or reverse share split, rights offering or a distribution of bonus shares or a cash dividend.

The Company may redeem the Bonds upon delisting of the Bonds from the TASE, subject to certain conditions. In addition, the Company may redeem the Bonds or any part thereof at its discretion after December 1, 2014, subject to certain conditions.

The Company elected to apply the fair value option in accordance with ASC 825, "Financial Instruments", to the Bonds and therefore all unrealized gains and losses are recognized in earnings. As of December 31, 2017, the fair value of the Bonds, based on their quoted price at the TASE and including accrued interest of \$313, was \$25,353.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

The changes of the long-term convertible debt in 2016 and 2017 were as follows:

<b>Balance as of January 1, 2016</b>	<b>\$ 35,926</b>
Change in accrued interest	1,586
Change in fair value	1,350
Payment of interest	(1,716)
Payment of principal	(7,620)
<b>Balance as of December 31, 2016*</b>	<b>\$ 29,526</b>
Change in accrued interest	1,344
Change in fair value	3,785
Payment of interest	(1,401)
Payment of principal	(7,901)
<b>Balance as of December 31, 2017*</b>	<b>\$ 25,353</b>

\* include accrued interest of \$376 and \$313 as of December 31, 2016 and 2017, respectively

In order to mitigate the potential adverse impact of the fluctuations in the ILS-USD exchange rate, the Company entered into a cross currency interest rate swap agreement (the "SWAP") in order to hedge the future interest and principal payments of the Bonds, which are denominated in ILS.

As of December 31, 2017, the Company satisfies all of the financial covenants associated with both the Bonds and the SWAP.

As of December 31, 2017, the aggregate principal annual payments of the Bonds were as follows:

	<b>Repayment amount</b>
2018	\$ 8,277
2019	8,278
2020	8,277
	<b>\$ 24,832</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 11: COMMITMENTS AND CONTINGENT LIABILITIES

## a. Office lease commitments

In January 2014, the Company entered into a lease agreement for new corporate offices in Holon, Israel. The lease expires in January 2025, with an option by the Company to extend for two additional terms of 24 months each. Additionally, the Company may exercise an early termination of the lease in November 2019.

Certain other facilities of the Company are rented under operating lease agreements, which expire on various dates, the latest of which is in 2022. The Company recognizes rent expense under such arrangements on a straight-line basis.

Furthermore, the Company leases motor vehicles for employees under operating lease agreements.

Aggregate minimum lease commitments under the aforesaid non-cancelable operating leases as of December 31, 2017, were as follows:

	Minimum lease payments	Minimum sublease rentals	Net future minimum lease commitment
2018	\$ 6,348	\$ 694	\$ 5,654
2019	4,266	697	3,569
2020	3,434	627	2,807
2021	3,506	695	2,811
2022	2,522	540	1,982
Thereafter	4,383	430	3,953
	<b>\$ 24,459</b>	<b>\$ 3,683</b>	<b>\$ 20,776</b>

Facilities leasing expenses from continued operations in the years 2015, 2016 and 2017 were \$1,710, \$5,419, and \$4,118 respectively. Car leases expenses from continued operations in the years 2015, 2016 and 2017 were \$1,046, \$790 and \$493, respectively. Sublease income amounted to \$595, \$703 and \$1,076 in the years 2015, 2016 and 2017, respectively.

## b. Contingent purchase obligation

On November 30, 2012, the Company completed the acquisition of 100% of Sweet IM's shares. Pursuant to the terms of the Share Purchase Agreement ("SPA") between the Company and SweetIM, the Company was obligated to pay SweetIM's shareholders, among other payments, a payment of up to \$ 7,500 in cash in May 2014 if certain milestones were met (the "Contingent Payment"). The milestones were based on the Company's GAAP revenues in 2013, and the absence of certain changes in the industry in which the Company operates. On May 28, 2014, the Company paid \$2,500 in respect of the Contingent Payment. Following such payment, on June 22, 2014, SweetIM's Shareholders' representative notified the Company claiming that the Company owes SweetIM's shareholders the entire Contingent Payment. The Company believes that the claim is without merit and plans to defend against it vigorously. Until this dispute is resolved, the Company will maintain the \$5,000 liability in its financial statements that was recorded at the time it entered into the SPA. In April 2015, pursuant to the SPA, an arbitration process with respect to this claim was commenced in Israel.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## c. Legal Matters

On December 22, 2015, Adtile filed a lawsuit against Perion and Intercept Interactive Inc. ("Intercept"), a subsidiary of Interactive Holding Corp., in the United States District Court for the District of Delaware. The lawsuit alleges various causes of action against Perion and Intercept, related to Intercept's alleged unauthorized use and misappropriation of Adtile's proprietary information and trade secrets. On February 3, 2016, Adtile Technologies Inc. filed a motion for preliminary injunction to, inter alia, prevent Undertone from creating or selling motion-activated advertisements. On June 23, 2016, the court denied Adtile's motion for a preliminary injunction. On June 24, 2016, the court (i) granted Perion's motion to dismiss and (ii) granted Undertone's motion to stay the action and compel arbitration. As of the date of this filing, Adtile's had not commented an arbitration proceeding and the court closed the case for administrative purposes. The Company is unable to predict the outcome or range of possible loss at this stage, believes it has strong defenses against this lawsuit and intends to defend against it vigorously.

From time to time, the Company is party to other various legal proceedings, claims and litigation that arise in the ordinary course of business. It is the opinion of management that the ultimate outcome of these matters will not have a material adverse effect on the Company's financial position, results of operations or cash flows.

**NOTE 12: SHAREHOLDERS' EQUITY**

## a. Ordinary shares

On November 18, 2013, the shareholders resolved to increase the authorized share capital of the Company to 120,000,000 ordinary shares with a par value of ILS 0.01 each. The ordinary shares of the Company entitle their holders to voting rights, the right to receive cash dividend and the right to a share in excess assets upon liquidation of the Company.

## b. Private placement

On December 3, 2015 (the "Effective date"), the Company completed a private placement of 4,436,898 ordinary shares for gross proceeds of \$10,125 pursuant to a Securities Purchase Agreement (the "SPA") with two investors. The purchase price per share was \$2.282 per share, which was the average closing price of an ordinary share on the Nasdaq Global Select Market for the 30 trading days ending on December 1, 2015. According to the terms in the SPA, on September 1, 2016, the per share purchase price was adjusted downward to a price per share of \$1.939, and the Company issued to the two investors 782,981 additional ordinary shares for no additional consideration.

On November 30, 2015, the Company entered into Registration Rights Agreement (the "Agreement") with the two investors, pursuant to which the Company shall use its commercially reasonable efforts in order to file a registration statement on Form F-3 for the resale of the aforesaid Ordinary shares issued within timeframe as detailed in the Agreement. The registration statement was declared effective on March 31, 2016. The Company also agreed to other customary obligations regarding registration, including indemnification and maintenance of the applicable registration statement.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## c. Stock Options, Restricted Stock Units and Warrants

In 2003, the Company's Board of Directors approved the 2003 Equity Incentive Plan (the "Plan") for an initial term of ten years from adoption and on December 9, 2012, extended the term of the Plan for an additional ten years. On August 7, 2013, the Company's Board of Directors approved amendments to the Plan which include the ability to grant RSUs and restricted stock.

The contractual term of the stock options is generally no more than five years and the vesting period of the options and RSUs granted under the Plan is between one and three years from the date of grant. The rights of the ordinary shares issued upon the exercise of stock options or RSUs are identical to those of the other ordinary shares of the Company.

As of December 31, 2017, there were 13,462,749 ordinary shares reserved for future stock-based awards under the Plan.

The following table summarizes the activities for the Company's service-based stock options for the year ended December 31, 2017:

	Number of options	Weighted average		Aggregate intrinsic value
		Exercise price	Remaining contractual term (in years)	
Outstanding at January 1, 2017	5,354,220	\$ 4.04	2.82	\$ 549
Granted	10,991,668	1.41	-	-
Exercised	-	-	-	-
Cancelled	(3,733,139)	3.48	-	-
<b>Outstanding at December 31, 2017</b>	<b>12,612,749</b>	<b>\$ 2.14</b>	<b>4.05</b>	<b>\$ 56</b>
<b>Exercisable at December 31, 2017</b>	<b>2,233,865</b>	<b>\$ 4.23</b>	<b>2.14</b>	<b>\$ 17</b>
<b>Vested and expected to vest at December 31, 2017</b>	<b>10,535,436</b>	<b>\$ 2.77</b>	<b>3.73</b>	<b>\$ 53</b>

The weighted-average grant-date fair value of options granted during the years ended December 31, 2015, 2016 and 2017 was \$1.14, \$0.64 and \$0.72, respectively.

The aggregate intrinsic value of the outstanding stock options at December 31, 2017, represents the intrinsic value of 1,087,969 outstanding options that were in-the-money as of such date. The remaining 11,524,780 outstanding options were out-of-the-money as of December 31, 2017, and their intrinsic value was considered as zero. Total intrinsic value of options exercised during the year ended December 31, 2017 was \$0.

The number of options expected to vest reflects an estimated forfeiture rate.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

The following table summarizes the activities for the Company's performance-based stock options for the year ended December 31, 2017:

	Number of Performance based options	Weighted average		Aggregate intrinsic value
		Exercise price	Remaining contractual term (in years)	
<b>Outstanding at January 1, 2017</b>	1,516,666	\$ 2.53	3.77	\$ -
<b>Cancelled</b>	(666,666)	2.28	-	-
<b>Outstanding at December 31, 2017</b>	<u>850,000</u>	<u>2.72</u>	<u>2.94</u>	<u>-</u>
<b>Exercisable at December 31, 2017</b>	<u>566,665</u>	<u>2.72</u>	<u>2.94</u>	<u>-</u>
<b>Vested and expected to vest at December 31, 2017</b>	<u>1,315,714</u>	<u>\$ 2.72</u>	<u>3.08</u>	<u>\$ -</u>

The performance based options' vesting is contingent upon achieving specific financial targets of the Company, set at the grant date.

The weighted-average grant-date fair value of options granted during the years ended December 31, 2015, 2016 and 2017 was, was \$0.90, \$0, and \$0.

There is no aggregate intrinsic value of the outstanding performance-based options at 2017, since they were all are out-of-the-money as of such date.

The number of options expected to vest reflects an estimated forfeiture rate.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

The following table summarizes additional information regarding outstanding and exercisable stock options under the Company's Stock Option Plan as of December 31, 2017:

Range of exercise price	Outstanding			Exercisable		
	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price
\$ 0.34 - 2.00	9,270,118	2.74	\$ 1.50	343,845	4.31	\$ 1.26
2.11 - 2.63	2,517,834	3.04	2.44	1,181,893	1.59	2.31
3.27 - 3.77	1,148,166	1.19	3.61	748,161	1.21	3.59
4.04 - 6.93	101,953	0.56	5.23	101,953	0.56	5.23
7.80 - 9.14	78,500	0.05	8.53	78,500	0.05	8.53
10.06 - 11.94	322,428	0.29	11.29	322,428	0.29	11.29
\$ 12.56 - 13.54	23,750	0.43	12.63	23,750	0.43	12.63
	<u>13,462,749</u>	2.57	\$ 2.18	<u>2,800,530</u>	1.58	\$ 3.93

The following table summarizes the activities for the Company's RSUs for the year ended December 31, 2017:

	Number of RSUs	Weighted average grant date fair value (\$)
Unvested at January 1, 2017	327,000	\$ 12.64
Vested		
Cancelled	(327,000)	12.64
Unvested at December 31, 2017	-	-
Expected to vest after December 31, 2017	-	-

The Company recognized share-based compensation expenses related to its stock-based awards in the consolidated statements of operations as follows:

	Year ended December 31,		
	2015	2016	2017
Cost of revenues	\$ 247	\$ 219	\$ 36
Research and development	804	708	229
Selling and marketing	1,397	1,907	744
General and administrative	4,290	4,010	1,104
Total	<u>\$ 6,738</u>	<u>\$ 6,844</u>	<u>\$ 2,113</u>
Share-based compensation in discontinued operations	<u>\$ 878</u>	<u>\$ 42</u>	<u>\$ -</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

As of December 31, 2017, there was \$3,578 of unrecognized compensation cost related to outstanding stock options and RSUs, \$121 related to outstanding warrants and \$67 related to outstanding performance-based options. These amounts are expected to be recognized over a weighted-average period of 1.77 years related to outstanding stock options and RSUs, 1.49 years related to outstanding warrants and 1.0 years related to outstanding performance-based options. To the extent the actual forfeiture rate is different from what has been estimated, stock-based compensation related to these awards will differ from the initial expectations.

- d. In connection with the Undertone acquisition, the Company granted warrants to purchase 200,000 ordinary shares, at a weighted average exercise price of \$3.03 per share, to a third-party vendor that provides development services to Undertone. The warrants are exercisable until December 27, 2020, and its weighted-average grant-date fair value was \$1.23. The total expense incurred in 2015, 2016 and 2017 was \$2, \$62 and \$61, respectively.

## NOTE 13: FINANCIAL INCOME (EXPENSE), NET

	Year ended December 31,		
	2015	2016	2017
<b>Financial income:</b>			
Interest income	\$ 551	\$ 204	\$ 132
Foreign currency translation gains, net	572	-	204
Change in fair value of SWAP	225	608	2,373
Other			197
	<u>\$ 1,348</u>	<u>\$ 812</u>	<u>\$ 2,906</u>
<b>Financial expense:</b>			
Foreign currency translation losses, net	\$	\$ (779)	\$
Interest and change in fair value of payment obligation related to acquisitions	(489)	(1,303)	(43)
Issuance costs of convertible debt	-	-	-
Interest expense on debts	(2,313)	(5,306)	(4,794)
Change in fair value of convertible debt	(175)	(1,350)	(3,785)
Bank charges and other	(310)	(362)	(206)
	<u>\$ (3,287)</u>	<u>\$ (9,100)</u>	<u>\$ (8,828)</u>
<b>Financial expense, net</b>	<u>\$ (1,939)</u>	<u>\$ (8,288)</u>	<u>\$ (5,922)</u>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 14: INCOME TAXES

- a. Income (Loss) before taxes on income

Income (Loss) before taxes on income is comprised as follows:

	Year ended December 31,		
	2015	2016	2017
Domestic	\$ (16,712)	\$ (3,393)	\$ 10,485
Foreign	(24,249)	6,453	(92,065)
Total	<u>\$ (40,961)</u>	<u>\$ 3,060</u>	<u>\$ (81,580)</u>

- b. Taxes on income

Taxes on income are comprised as follows:

	Year ended December 31,		
	2015	2016	2017
Current taxes	\$ 9,656	\$ 3,753	\$ 1,212
Taxes in respect of previous years	14	(273)	(1,179)
Deferred tax benefit	(8,973)	(3,268)	(8,859)
Total	<u>\$ 697</u>	<u>\$ 212</u>	<u>\$ (8,826)</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Taxes on income by jurisdiction were as follows:

	Year ended December 31,		
	2015	2016	2017
Domestic	\$ 8,830	\$ 3,396	\$ 1,548
Foreign	(8,133)	(3,184)	(10,374)
<b>Total</b>	<b>\$ 697</b>	<b>\$ 212</b>	<b>\$ (8,826)</b>
<b>Domestic:</b>			
Current taxes	\$ 8,929	\$ 2,800	\$ 387
Deferred tax (benefit) expense	(113)	937	2,532
Taxes in respect of previous years	14	(341)	(1,371)
<b>Total - Domestic</b>	<b>\$ 8,830</b>	<b>\$ 3,396</b>	<b>\$ 1,548</b>
<b>Foreign:</b>			
Current taxes	\$ 727	\$ 953	\$ 825
Deferred tax benefit	(8,860)	(4,205)	(11,391)
Taxes in respect of previous years	-	68	192
<b>Total - Foreign</b>	<b>\$ (8,133)</b>	<b>\$ (3,184)</b>	<b>\$ (10,374)</b>
<b>Total income tax expense</b>	<b>\$ 697</b>	<b>\$ 212</b>	<b>\$ (8,826)</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## c. Deferred Taxes

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

	December 31,	
	2016	2017
<b>Deferred tax assets:</b>		
Net operating loss carry forwards	\$ 8,267	\$ 5,809
Research and development	3,190	753
Intangible assets	-	829
Other temporary differences mainly relating to reserve and allowances	2,703	1,937
<b>Deferred tax assets, before valuation allowance</b>	<b>14,160</b>	<b>9,328</b>
Valuation allowance	4,739	4,530
<b>Total deferred tax assets, net</b>	<b>\$ 9,421</b>	<b>\$ 4,798</b>
<b>Deferred tax liabilities:</b>		
Intangible assets	\$ (10,998)	\$ -
Property and equipment, net	(2,393)	-
<b>Total deferred tax liabilities</b>	<b>\$ (13,391)</b>	<b>\$ -</b>
<b>Total deferred tax liability, net</b>	<b>\$ (3,970)</b>	<b>\$ 4,798</b>
<b>Domestic:</b>		
Long term deferred tax asset, net	\$ 4,069	\$ 1,536
Long term deferred tax liability	-	-
	<b>\$ 4,069</b>	<b>\$ 1,536</b>
<b>Foreign:</b>		
Long term deferred tax asset, net	\$ 48	\$ 3,262
Long term deferred tax liability	(8,087)	-
	<b>\$ (8,039)</b>	<b>\$ 3,262</b>
<b>Total deferred tax asset (liability), net</b>	<b>\$ (3,970)</b>	<b>\$ 4,798</b>

The \$209 change in the total valuation allowance for the year ended December 31, 2017, relates to the decrease in deferred taxes on operating loss carry-forwards and temporary differences for which a full valuation allowance was recorded.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

- d. Reconciliation of the Company's effective tax rate to the statutory tax rate in Israel

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

	Year ended December 31,		
	2015	2016	2017
Income (Loss) before taxes on income	\$ (40,961)	\$ 3,060	\$ (81,580)
Statutory tax rate in Israel	26.5%	25.0%	24.0%
Theoretical tax expense (income)	\$ (10,855)	\$ 765	\$ (19,579)
Increase (decrease) in tax expenses resulting from:			
"Preferred Enterprise" benefits *	(5,654)	(1,356)	(584)
Non-deductible expenses	18,493	1,777	1,150
Non-deductible Impairment charges	2,245	-	12,652
Deferred taxes on losses and other temporary charges for which a valuation allowance was provided, net	(4,617)	527	(209)
Tax adjustment in respect of different tax rate of foreign subsidiaries	1,185	(2,032)	(3,392)
Change in future tax rate	-	448	836
Other	(100)	83	300
Taxes on income	<u>\$ 697</u>	<u>\$ 212</u>	<u>\$ (8,826)</u>
* Benefit per ordinary share from "Preferred Enterprise" status:			
Basic	<u>\$ 0.12</u>	<u>\$ 0.02</u>	<u>\$ 0.01</u>
Diluted	<u>\$ 0.12</u>	<u>\$ 0.02</u>	<u>\$ 0.01</u>

- e. Income tax rates

Taxable income of Israeli companies is generally subject to corporate tax at the rate of 25% for the 2013 tax year, 26.5% for the 2014 and 2015 tax years, and 25% for the 2016 tax year. On December 30, 2016, as part of the Economic Efficiency Law (Legislative Amendments for Accomplishment of Budgetary Targets for Budget Years 2017-2018), 5777-2016, the corporate tax rate was reduced to 24% for the 2017 tax year and to 23% in 2018 tax year. However, the effective tax rate payable by a company that derives income from a Preferred Enterprise (as discussed below) may be considerably lower.

Non-Israeli subsidiaries are taxed according to the tax laws in their respective countries of residence.

Taxes were not provided for undistributed earnings of the Company's foreign subsidiaries. Currently the Company does not intend to distribute any amounts of its undistributed earnings as dividends. The Company intends to reinvest these earnings indefinitely in the foreign subsidiaries and pay down its debt. Accordingly, no deferred income taxes have been provided in respect of these subsidiaries. If these earnings were distributed to Israel in the form of dividends or otherwise, the Company would be subject to additional Israeli income taxes (subject to an adjustment for foreign tax credits) and foreign withholding taxes.

The amount of undistributed earnings of foreign subsidiaries is immaterial.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## f. Law for the Encouragement of Capital Investments, 1959

The Law for Encouragement of Capital Investments, 1959 (the "Investment Law") provides tax benefits for Israeli companies meeting certain requirements and criteria. The Investment Law has undergone certain amendments and reforms in recent years.

The Israeli parliament enacted a reform to the Investment Law, effective January 2011. According to the reform, a flat rate tax applies to companies eligible for the "Preferred Enterprise" status. In order to be eligible for Preferred Enterprise status, a company must meet minimum requirements to establish that it contributes to the country's economic growth and is a competitive factor for the gross domestic product.

The Company's Israeli operations elected "Preferred Enterprise" status, starting in 2011.

Benefits granted to a Preferred Enterprise include reduced tax rates. In peripheral regions (Development Area A) the reduced tax rate was 7% in 2013, 9% in 2014, 9% in 2015 and 9% in 2016. As part of Economic Efficiency Law (Legislative Amendments for Accomplishment of Budgetary Targets for Budget Years 2017-2018), 5777-2016, the tax rate for Area A will be 7.5% in 2017 onwards. In other regions the tax rate is 16%. Preferred Enterprises in peripheral regions will be eligible for Investment Center grants, as well as the applicable reduced tax rates.

A distribution from a Preferred Enterprise out of the "Preferred Income" would be subject to 15% withholding tax for Israeli-resident individuals and non-Israeli residents (subject to applicable treaty rates), or 20% for dividends which are distributed on or after January 1, 2014 and from "Preferred Income" that was produced or accrued after such date. A distribution from a Preferred Enterprise out of the "Preferred Income" would be exempt from withholding tax for an Israeli-resident company.

## g. Uncertain tax positions

A reconciliation of the beginning and ending balances of the total amounts of unrecognized tax benefits is as follows:

	<b>December 31,</b>	
	<b>2016</b>	<b>2017</b>
<b>Balance at the beginning of the year</b>	\$ 2,401	\$ 3,236
Increase (decrease) related to prior year tax positions, net	(812)	153
Increase related to current year tax positions	1,647	674
<b>Balance at the end of the year</b>	<b>\$ 3,236</b>	<b>\$ 4,063</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

The Company recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in finance expenses. During the years ended December 31, 2015, 2016 and 2017, the Company recognized approximately \$(22), \$227, and \$344 in interest and penalties. The Company had \$193, and \$537 for the payment of interest and penalties accrued at December 31, 2016, and 2017, respectively.

The Company does not expect uncertain tax positions to change significantly over the next 12 months, except in the case of settlements with tax authorities, the likelihood and timing of which are difficult to estimate.

The Company believes that it has adequately provided for any reasonably foreseeable outcome related to tax audits and settlements, although the final tax outcome of its tax audits could be different from that which is reflected in the Company's income tax provisions and accruals. Such differences could have a material effect on the Company's income tax provision and net income in the period in which such determination is made.

The Company's tax assessments in Israel and the U.S. for tax years prior to 2012 are considered final. The Company has net operating losses in the U.S. from prior tax periods beginning in 2005 which may be subject to examination upon utilization in future tax periods

## h. Tax loss carry-forwards

As of December 31, 2017, the Company's U.S. subsidiaries have net operating loss carry-forwards of \$6,300.

Net operating losses in the U.S. may be carried forward through periods which will expire in the years starting from 2030 up to 2034. Utilization of U.S. net operating losses may be subject to substantial annual limitation due to the "change in ownership" provisions of the Internal Revenue Code of 1986 and similar state provisions. The annual limitation may result in the expiration of net operating losses before utilization.

As of December 31, 2017, the Company's European subsidiaries have net operating loss carry-forwards of \$5,990.

As of December 31, 2017, Perion have net operating loss carry-forwards, in Israel, of \$14,292.

## i. US Tax Reform:

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "TCJA"). The TCJA makes broad and complex changes to the Code. The changes include, but are not limited to:

- A corporate income tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017 ("Rate Reduction");
- The transition of U.S. international taxation from a worldwide tax system to a territorial system by providing a 100 percent deduction to an eligible U.S. shareholder on foreign sourced dividends received from a foreign subsidiary ("100% Dividend Received Deduction");
- A one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings as of December 31, 2017; and

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

The Company has calculated its best estimate of the impact of the TCJA for its year end income tax provision and deferred tax balances in accordance with its understanding of the TCJA and guidance available as of the date of this filing. The estimated tax expenses recorded related to the re-measurement of the deferred tax balance was \$836. The aforesaid provisional amounts are based on the Company's initial analysis of the Act as of December 31, 2017. Given the significant complexity of the Act, anticipated guidance from the U.S. Treasury about implementing the Act, the potential for additional guidance from the Securities and Exchange Commission or the Financial Accounting Standards Board related to the Act, as well as additional analysis and revisions to be conducted by the Company, these estimates may be adjusted during 2018.

The Tax Act imposes a mandatory transition tax on accumulated foreign earnings and eliminates US taxes on foreign subsidiary distribution. As a result, earnings in foreign jurisdictions are available for distribution to the U.S. without incremental U.S. taxes.

The Deemed Repatriation Transition Tax is a tax on previously untaxed accumulated and current earnings and profits ("E&P") of certain of the Company's foreign subsidiaries. To determine the amount of the Transition Tax, the Company must determine, in addition to other factors, the amount of post-1986 E&P of its foreign subsidiaries, as well as the amount of non-U.S. income taxes paid on such earnings. The amount of transition tax related to earnings of foreign subsidiaries is deemed to be immaterial.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 15: EARNINGS PER SHARE

The table below presents the computation of basic and diluted net earnings per common share:

	Year ended December 31,		
	2015	2016	2017
<b>Numerator:</b>			
Net income (Loss) attributable to ordinary shares - basic	\$ (41,658)	\$ 2,848	\$ (72,754)
Net income (Loss) from continuing operations - diluted	\$ (41,658)	\$ 2,848	\$ (72,754)
Net loss from discontinued operations – basic and diluted	\$ (26,999)	\$ (2,647)	\$ -
<b>Denominator:</b>			
Number of ordinary shares outstanding during the year	71,300,432	76,560,454	77,549,171
<b>Weighted average effect of dilutive securities:</b>			
Employee stock options and restricted stock units	-	113,349	-
<b>Diluted number of ordinary shares outstanding - Continuing and discontinued operations</b>	<u>71,300,432</u>	<u>76,673,803</u>	<u>77,549,171</u>
<b>Basic net earnings (loss) per ordinary share</b>			
Continuing operations	(0.58)	\$ 0.04	\$ (0.94)
Discontinued operations	(0.38)	\$ (0.04)	\$ -
Net income (loss)	<u>(0.96)</u>	<u>\$ 0.00*</u>	<u>\$ (0.94)</u>
<b>Diluted net earnings (loss) per ordinary share</b>			
Continuing operations	(0.58)	\$ 0.04	\$ (0.94)
Discontinued operations	(0.38)	\$ (0.04)	\$ -
Net income (loss)	<u>(0.96)</u>	<u>\$ 0.00*</u>	<u>\$ (0.94)</u>
<b>Ordinary shares equivalents excluded because their effect would have been anti-dilutive</b>	<u>14,179,439</u>	<u>10,700,363</u>	<u>16,224,618</u>

\*) Less than \$0.01



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

**NOTE 16: RESTRUCTURING COSTS**

In 2015 and 2016, we incurred restructuring charges of \$1.1 and \$0.7 million, respectively, in connection with the restructuring plan of one of our consumer app development project, mainly to reduce workforce, close certain facilities, as well as other cost saving measures. In 2017 there were no restructuring charges.

**NOTE 17: MAJOR CUSTOMERS**

A substantial portion of the Company's revenue is derived from search fees and online advertising, the market for which is highly competitive and rapidly changing. Significant changes in this industry or in customer buying behavior would adversely affect the Company's operating results.

The following table sets forth the customers that represented 10% or more of the Company's total revenues in each of the years presented below:

	<b>Year ended December 31,</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
Customer A	81%	49%	46%

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 19: GEOGRAPHIC INFORMATION

The Company operates as one operating segment. Operating segments are defined as components of an enterprise for which separate financial information is evaluated regularly by the Chief Operating Decision Maker, who is the Chief Executive Officer, in deciding how to allocate resources and assessing performance. Over the past few years, the Company has completed several acquisitions. These acquisitions have allowed the Company to expand its offerings, presence and reach in various market. While the Company has offerings in multiple enterprise market, the Company's business operates in one segment which is the High Impact Advertising solutions, and the Company's Chief Operating Decision Maker evaluates the Company's financial information and resources and assesses the performance of these resources on a consolidated basis.

The following table presents the total revenues for the years ended December 31, 2015, 2016 and 2017, allocated to the geographic areas in which they were generated:

	<b>Year ended December 31,</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
North America (mainly U.S.)	\$ 173,424	\$ 253,960	\$ 213,471
Europe	40,612	47,012	48,146
Other	6,914	11,822	12,369
	<b><u>\$ 220,950</u></b>	<b><u>\$ 312,794</u></b>	<b><u>\$ 273,986</u></b>

The total revenues are attributed to geographic areas based on the location of the end-users.

The following table presents the locations of the Company's property and equipment as of December 31, 2016 and 2017:

	<b>December 31,</b>	
	<b>2016</b>	<b>2017</b>
Israel	\$ 9,108	\$ 12,229
U.S.	4,402	4,064
Europe	695	1,183
	<b><u>14,205</u></b>	<b><u>\$ 17,476</u></b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 20: SUBSEQUENT EVENTS

- a. In January 2018, the Company executed a repricing of 8,050,176 stock options of the Company's employees, directors, and executive officers, previously granted. As part of the repricing, the options' exercise price was adjusted to \$1.08 (determined based on the weighted average price of the Company's ordinary shares on Nasdaq in the last 90 days prior to the repricing). In addition, the vesting period was adjusted as follows – (i) grants issued prior to January 1, 2015, shall vest over a twelve months period in quarterly installments whether or not currently vested or would have been vested by that time; (ii) grants issued after January 1, 2015 will be subject to the following vesting schedule: one third shall vest over twelve months in equal quarterly installments, and the remaining two-thirds shall vest over twenty four months in equal quarterly installments whether or not currently vested or would have been vested by that time. The expiration date of the adjusted options shall be seven years from the date hereof. The total incremental fair value of these options amounted to \$1,471, and was determined based on the binomial pricing options model using the following assumptions: early exercise multiple: 250% - 300%, risk free interest rate of 1.7% - 2.3%, expected volatility of 51% - 57%, forfeiture rate post vesting of 17% - 23%, and dividend yield of: 0%.
- b. In January 2018, the Company initiated a restructuring plan mainly to reduce workforce, close certain facilities, as well as other cost saving measures. Pursuant to this restructuring plan, in 2018, the Company incurred cumulative charges of \$2,270 as follows:

Payroll and share-based compensation expenses	\$ 1,418
Lease facilities and related expenses	852
Total restructuring costs	<u>\$ 2,270</u>

**ITEM 19. EXHIBITS:**

<u>No.</u>	<u>Description</u>
<a href="#">1.1</a>	<a href="#">Memorandum of Association of Perion, as amended and restated (translated from Hebrew) (1)</a>
<a href="#">1.2</a>	<a href="#">Articles of Association of Perion, as amended and restated (2)</a>
<a href="#">4.1</a>	<a href="#">Share Purchase Agreement by and among Perion Network Ltd., SweetIM Ltd., SweetIM Technologies Ltd., the Shareholders of SweetIM Ltd. and Nadav Goshen as Shareholders' Agent, dated as of November 7, 2012, and Amendment No. 1, dated as of November 30, 2012 (3)</a>
<a href="#">4.2</a>	<a href="#">Registration Rights Agreement among the Company and the investors listed therein, dated as of November 7, 2012 (3)</a>
<a href="#">4.3</a>	<a href="#">Share Purchase Agreement by and among Perion Network Ltd., Conduit Ltd. and ClientConnect Ltd., dated as of September 16, 2013 (4)</a>
<a href="#">4.4</a>	<a href="#">Form of Standstill Agreement between Perion Network Ltd. and certain shareholders thereof, dated as of September 16, 2013 (4)</a>
<a href="#">4.5</a>	<a href="#">Form of Registration Rights Undertaking of the Company dated January 2, 2014 (4)</a>
<a href="#">4.6</a>	<a href="#">Perion 2003 Israeli Share Option Plan and U.S. Addendum (3)</a>
<a href="#">4.7</a>	<a href="#">Perion Equity Incentive Plan (4)</a>
<a href="#">4.8</a>	<a href="#">Compensation Policy for Directors and Officers, adopted November 18, 2013, as amended on March 23, 2017 and on February 15, 2018</a>
<a href="#">4.9</a>	<a href="#">Summary Terms and Conditions of Series L Convertible Bonds (2)</a>
<a href="#">4.10</a>	<a href="#">Search Distribution Agreement by and between Microsoft Online, Inc. and Perion Network Ltd., dated July 29, 2014, as amended on September 15, 2014* (2)</a>
<a href="#">4.11</a>	<a href="#">Merger Agreement by and between Perion Network Ltd., IncrediTone Inc., Or Merger, Inc., Interactive Holding Corp. and Fortis Advisors LLC as the Stockholders' Representative, dated November 30, 2015 (6)</a>
<a href="#">4.12</a>	<a href="#">Credit Agreement by and between Or Merger, Inc., Interactive Holding Corp., IncrediTone Inc., SunTrust Bank, Silicon Valley Bank and SunTrust Robinson Humphery, Inc., dated November 30, 2015 (6)</a>
<a href="#">4.13</a>	<a href="#">Securities Purchase Agreement by and between Perion Network Ltd. and the purchasers listed therein, dated November 30, 2015 (6)</a>
<a href="#">4.14</a>	<a href="#">Registration Rights Agreement by and between Perion Network Ltd. and the purchasers listed therein, dated December 3, 2015 (6)</a>
<a href="#">4.15</a>	<a href="#">Amendments No. 1, No. 2, No. 3 and No. 4 to the Credit Agreement by and between Or Merger, Inc., Interactive Holding Corp., IncrediTone Inc., SunTrust Bank, Silicon Valley Bank and SunTrust Robinson Humphery, Inc., dated March 4, 2016, May 8, 2016 October 7, 2016 and March 6, 2018 respectively</a>
<a href="#">4.16</a>	<a href="#">Search Distribution Agreement by and between Microsoft Ireland Operations Limited and Perion Network Ltd., effective as of January 1, 2018*</a>
<a href="#">4.17</a>	<a href="#">A form of Indemnification Letter Agreement between the Company and its present and future directors and officers</a>
<a href="#">8</a>	<a href="#">List of subsidiaries</a>
<a href="#">12.1</a>	<a href="#">Certification required by Rule 13a-14(a) or Rule 15d-14(a) executed by the Chief Executive Officer of the Company</a>
<a href="#">12.2</a>	<a href="#">Certification required by Rule 13a-14(a) or Rule 15d-14(a) executed by the Chief Financial Officer of the Company</a>
<a href="#">13.1</a>	<a href="#">Certification required by Rule 13a-14(b) or Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code</a>
<a href="#">13.2</a>	<a href="#">Certification required by Rule 13a-14(b) or Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code</a>
<a href="#">15.1</a>	<a href="#">Consent of Kost Forer Gabbay &amp; Kasierer, a member of Ernst &amp; Young Global, Independent Auditors.</a>
101	Financial information from Perion Network Ltd.'s Annual Report on Form 20-F for the year ended December 31, 2017 formatted in XBRL (eXtensible Business Reporting Language)

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- (1) Previously filed with the SEC on April 10, 2014 as an exhibit to our annual report on Form 20-F, and incorporated herein by reference
  - (2) Previously filed with the SEC on April 16, 2015 as an exhibit to our annual report on Form 20-F, and incorporated herein by reference
  - (3) Previously filed with the SEC on April 29, 2013 as an exhibit to our annual report on Form 20-F, and incorporated herein by reference
  - (4) Previously filed with the SEC on October 15, 2013 as an exhibit to our Report on Form 6-K, and incorporated herein by reference
  - (5) Previously filed with the SEC on July 29, 2014 as an exhibit to our annual report on Form 20-F/A, and incorporated herein by reference
  - (6) Previously filed with the SEC on March 24, 2016 as an exhibit to our annual report on Form 20-F, and incorporated herein by reference

\* Confidential treatment was granted with respect to certain portions of this exhibit pursuant to 17.C.F.R. §240.24b-2. Omitted portions were filed separately with the SEC

**SIGNATURES**

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

PERION NETWORK LTD.

By: /s/ Doron Gerstel  
Name: Doron Gerstel  
Title: Chief Executive Officer

Date: March 27, 2018

# Perion

## Perion Network Ltd.

### Executive Compensation Policy

#### 1. Objectives & Content

In this document we will define and detail Perion Network Ltd.'s (hereby referred to as the “**Company**” or “**Perion**”)<sup>1</sup> compensation policy regarding the Company’s Directors and Officers (“**Officer’s**” shall mean CEO and executives that are CEO's direct reports) (the “**Compensation Policy**”). Unless specifically stated otherwise, all the following terms shall apply to the compensation of Officers only, unless indicated otherwise.

The publication of the Compensation Policy is intended to increase the transparency and visibility of Perion's activities regarding all aspects of its Directors’ and Officers’ compensation and to enhance the shareholders' ability to influence the compensation of the Company's Directors and Officers.

This Compensation Policy shall apply only to compensation determined after its adoption in accordance with the provisions of the Companies Law, and will not be construed as altering or amending any compensation duly approved prior to its adoption.

The policy is worded in the masculine form only for purposes of convenience and is designated for equal and identical application to women and men, without any difference or change.

It is stressed that this Compensation Policy does not grant any rights to the Company’s Directors and Officers, and the adoption of this compensation policy per se will not grant any of the Company’s Directors and Officers a right to receive any elements of compensation set forth in this compensation policy. The elements of compensation to which a Director or Officer will be entitled will be exclusively those that are determined specifically in relation to him in accordance with the requirements of the Israeli Companies Law, 1999 and the regulations promulgated thereunder (together, the “**Companies Law**”) and as approved by the shareholders for Directors, and as specified in the employment agreement with the relevant Officer. A change in the compensation package of an Officer which reports to the CEO, which results in an increase of such Officer's total compensation by no more than an amount equal to 3 monthly salaries (in aggregate, during the period of the Compensation Policy) may be approved solely by the CEO, provided all elements of compensation of such Officer will continue to meet the requirements of the Compensation Policy.

It is clarified that in the event a Director or Officer receives compensation that is less than the compensation in accordance with this compensation policy, it will not be regarded as a deviation from this compensation policy.

It is further clarified that with respect to a person who becomes an Officer of the Company as a result of an acquisition by the Company of a business or a company, and such Officer's compensation terms were determined prior to such acquisition, then such compensation terms will not be subject to this Compensation Policy unless required by the Companies Law.

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<sup>1</sup> Where appropriate for any Officer that is employed by a subsidiary or affiliate of Perion, the terms Company or Perion shall include such subsidiary or affiliate.

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## 2. General

### 2.1. Compensation Policy Purposes:

The Compensation Policy is designed to support the achievement of the Company's long term work plan goals and to ensure that:

- Officers' interests are aligned as closely as possible with the interests of Perion's shareholders;
- The correlation between performance and payment will be enhanced;
- Perion will be able to recruit and retain top level executives capable of leading the Company to further business success, facing the challenges ahead;
- Officers will be motivated to achieve a high level of business performance without taking unreasonable risks;
- An appropriate balance will be established between different compensation elements – fixed vs. variable, short term vs. long term and cash payments vs. equity based compensation.

### 2.2. Business environment and its impact on Company Officers' compensation:

Perion is a global technology company that delivers high-quality advertising solutions to brands and publishers. The Compensation Policy is intended to ensure the Company's ability to retain and recruit a dedicated and experienced professional management team that will be able to successfully promote the Company's interests and manage its business, operations and assets.

## 3. Compensation of Directors and Officers in view of the Company's Values and Strategy

### 3.1. The connection between the Company's results and Officers' compensation:

We believe the total compensation of our Officers should be influenced by our business results as well as each Officer's individual contribution to the achievement of these results.

#### 3.2.1 The ratio between the compensation of Officers and the other employees of the Company:

The Compensation Committee and the Board of Directors (“BOD”) will review, from time to time, the ratio between the total cost of employment of each of Officers and the average and median total costs of employment of the rest of the employees (including contractors as defined in the Companies Law, if applicable), and discuss its possible impact on labor relations within the Company. Such ratios were reviewed when composing the Compensation Policy and it was determined by the Compensation Committee and the BOD that they are reasonable and will not harm the working relationship in the Company.<sup>2</sup>

## 4. Basic Concepts of the Company's Compensation Policy

Officers' compensation should include a number of elements so that each of these elements rewards a different aspect of their overall contribution to the Company's success:

- Base Salary, and Management Service Fee – Compensates Officers for the time they devote to performing their roles with the Company and for the daily performance of their tasks. The base salary correlates to the Officer's skills (such as: experience, position, knowledge, expertise, education, professional qualifications, etc.), on the one hand, and to the requirements of the position as well as the authority and responsibilities the position carries, on the other hand.
- Social and Fringe Benefits – Several of the social benefits are mandatory according to different local legislation (such as: pension and long term savings, severance pay, vacation, sick leave, etc.), others are provided according to market specific conventions and enable the Company to compete in the working environment (such as education funds, and company cars in Israel) and the remainder are meant to complement the base salary and compensate the Officers for expenses incurred in connection with the requirements of their position (such as: travel expenses or allowances).

<sup>2</sup> Prior to the adoption of this policy such ratio was calculated as follows (based on 2016 figures and value of equity taken into account, is the value of grants made in 2016):

\*CEO: ratio is 6.2 per average and 8.1 per median;

\*Other Officers: ratio is 7.6 per average and 8.3 per median.

\*The ratio set forth above includes equity-based compensation expenses. Such numbers are based on the option or RSU grant date fair value in accordance with accounting guidance for equity-based compensation and does not necessarily reflect the cash proceeds to be received by the applicable officer upon the vesting and sale of the underlying shares.

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- Variable, Performance Based Cash Rewards (Annual Bonus and Commissions) – Reward Officers for their contributions to the Company’s success and achievement of business goals during a predefined timeframe.
- Equity Based Compensation – Designed to strengthen the link between long term shareholders’ returns and the Officers’ and Directors’ rewards. This type of reward creates a stronger link between Directors’ and Officers’ motivation and interests and the interests of the Company’s shareholders. Another significant effect of Equity Based compensation is its contribution to retention, due to its inherent long term characteristics.

To ensure an adequate fit of all reward elements and the appropriate structure of the total compensation package, all compensation elements of a Director or Officer will be presented for review and approval by the applicable corporate organs of the Company, if and as required pursuant to any law, prior to approval of any specific payment or reward.

## 5. Compensation Elements

In order to determine the ranges for base salary (and other compensation elements) for recruitment of Officers to the Company, the Company will deploy different methods for determining the appropriate compensation package and its elements. These may include market comparisons, internal comparisons, prior compensation of candidates for the position, and other methods as the Company deems fit.

### **Market Comparisons (Benchmark):**

A comparative compensation study may be conducted in the relevant market, reviewing similar position holders in comparable companies in relevant geographies. The comparative study will cover companies meeting as many criteria as possible from the following list:

- Ad-tech, business software and internet information companies;
- Public companies traded on the Tel-Aviv Stock Exchange, NASDAQ or NYSE markets with market cap and/or revenues that are similar to that of Perion
- Companies with a global reach and with an acquisitive strategy;
- Companies competing with Perion for managerial talent and for potential Officers in particular;

Companies for which no reliable data can be collected will not be included in the comparison, even if they meet many or even all other criteria.

The comparative study will cover all compensation elements and will present (if data availability allows) the following:

- Customary base salary range for similar roles;
- Customary range for annual bonus (as a nominal amount and in terms of percentage of annual base salary);
- Customary range for equity based compensation as reported in the companies' Financial Reports / SEC filings (as a nominal amount, as a percentage of overall equity value of the Company and in terms of percentage of annual base salary);
- The value of customary fringe and other benefits.

### **Internal comparison:**

Before determining a Company Officer's pay, the following considerations, including their impact on labor relations in the Company, in general, and within the management team in particular, will be taken into account:

- The compensation paid to the person filling the position prior to the current appointment, if relevant;
  - The ratio between the Officer's compensation and the compensation of other Officers, particularly at the same level;
-

- The ratio between the Officer's cost of employment and the cost of employment of all other Company employees (including contractors as defined in the Companies Law, as applicable), as detailed in Section 3.2 above.

These amounts will be reviewed from time to time, compared to prevailing relevant market conditions and cost of living and updated if necessary.

## 5.1 Base Salary:

### 5.1.1 Determining the base salary of the Company's Officers

The base salary for the Company's Officers is first determined based on a pre-defined salary range. The range for each position will be based on:

- Relevant peer group benchmark data, if available;
- Job requirements, authority and responsibilities the position carries and prior agreements with the Officer;
- Officer's education, skills, expertise, professional experience and achievements;
- Internal ratios between positions and between the Officer and the other employees (including contractors as defined in the Companies Law, as applicable) in the Company;
- The Company's financial situation, business challenges and goals.

The pay grade, approved, will reflect the Officer's skills and suitability for the intended position.

In any event, for Officers, the **monthly** base salary (which may be linked to the Consumer Price Index or other index) will not exceed:

- CEO based in Israel: NIS 180,000
- CEO based outside Israel: USD 51,000
- Other Officers based in Israel: NIS 150,000.
- Other Officers based outside Israel: USD 48,000

In Israel, the Company's Officers are naturally exempt from the provisions of the Israeli Working and Rest Hours Law, as they hold senior managerial positions as defined in such Law. Therefore, they are not entitled to any additional compensation for overtime. It is to be noted: (i) that the Company operates in Israel, US and in additional territories as well, accordingly, the base salary may differ in different territories in accordance with the customary range of base salaries for executive level employees in the particular territory.

### 5.1.2 Annual base salary review principles:

In order to retain Company Officers for long periods, their base salary will be reviewed from time to time in comparison to similar positions in the relevant market, taking into consideration the Company's financial situation. If necessary, a pay increase request will be presented to the relevant organs for approval.

### 5.1.3 Upon recruitment of a new Officer the relevant organs of the Company may approve a signing bonus to such Officer upon recruitment, in their sole discretion taking into consideration the above principles.

## 5.2 Variable compensation:

Variable compensation elements are intended to achieve the following goals:

- Linking part of the Officers' compensation to the achievement of business goals and targets which will, in the long term, maximize shareholders' return and create a joint interest between Officers and shareholders;
  - Increasing Officers' motivation to achieve short term and long term Company goals; and
  - Correlating part of the Company's pay expenses with its business performance, thus, increasing financial and operational flexibility.
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### 5.2.1 Ratio between elements of the compensation package

The targeted ratio between the (base salary or fees in the case of directors) and variable (equity only in the case of directors and bonus and equity in the case of other Officers and CEO) elements of Directors' and Officers' compensation is as follows\* (the percentages below reflect ratios compared to the annual base salary):

	CEO	Other Officers	Directors
Annual base salary	100%	100%	100%
All other social and fringe benefits	30-50%**	30-50%	
Annual bonus	Up to 100%	Up to 100%	
Equity (Per vesting annum)	Up to 400%	Up to 260%	US\$200,000

\* The above ranges do not take into account special grants of equity incentives or onetime bonus grants upon recruitment of a new Officer.

\*\*There may be years that the total cash component of any executive compensation package may be higher or lower, and as a result the percentage of the social and fringe benefits may be lower or higher than the ranges stated above.

### 5.2.2 Annual Bonus Principles

5.2.2.1 The Company's Officers will be entitled to participate in an annual bonus plan (the “**Annual Bonus Plan**”). The Compensation Committee sets the cash bonus performance objectives and target bonus for each executive officer, at the start of each year, which are then reviewed and approved by the Board. The Annual Bonus Plan will include the following provisions:

The Target Bonus and Bonus Calculation:

- The target bonus will be paid to the extent Company and/or Business Unit performance and/or individual performance objectives are met.
- The bonus will be calculated as a product of the Company and/or Business Unit performance, and/or the individual performance and the target bonus.
- For Officers, except the CEO, the Compensation Committee and the BOD will have full discretion to determine the final bonus payout based, among other things, on the bonus calculation and additional considerations relevant to the performance and objectives of the Company and the relevant Officer including non-measurable criteria.

5.2.2.2 The measures based on which the annual bonus for the CEO will be calculated:

- Company Performance Measures: Such as - Revenues, EBITDA, Net Income, etc. measured against the targets of the annual budget and work plan of the Company for the relevant year. The weight of Company performance will constitute at least 75% of the total bonus;
- Individual Performance Measures: The performance measures may also include individual performance measures. Evaluation of the CEO's performance and contribution to the Company's short and long term success. Performance evaluation may be based on quantitative measures, qualitative measures and/or discretion. The weight of individual performance will constitute the balance of the total bonus, provided that the weight of non-measurable component's (including discretion) will constitute no more than 25% of the total bonus.

The objectives per each performance measure will be set in advance, as part of the Annual Bonus Plan. Nevertheless, the objectives may be adjusted during the applicable bonus year in special circumstances resulting from exogenous factors, subject to applicable law.

5.2.2.3 Bonus Cap:

The maximum annual bonus payable for the Company's CEO and other executive officers will be equivalent to 100% of the annual base salary (12 monthly salaries);

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#### 5.2.2.4 Reviewing and reducing bonuses

Following the approval of the Annual Bonus Plans and of the annual financial reports for the relevant fiscal year, the bonuses' calculation will be presented to the Compensation Committee and the BOD for their review and approval. The Compensation Committee and the BOD will have the authority to reduce the Annual Bonus based on their discretion.

#### 5.2.2.5 Claw Back Mechanism

Each Officer will be required to refund any part of the annual bonus paid based on financial results that are proven to be inaccurate and which are restated in the financial statements during the 2 years following the actual payment of the annual bonus, provided the Officer is employed by the Company upon publication of the restated financial statements. The Compensation Committee and the BOD shall decide upon the timing, form and terms of the repayment (for example, whether such repayment shall be net of taxes or not). Notwithstanding the aforesaid, the compensation recovery will not be triggered in the event of a financial restatement required due to changes in financial reporting standards.

#### 5.2.2.6 Entitlement for Bonus

Subject to the conditions and limitations set above, an executive officer who ceases to perform his/her role as an executive officer, but has provided services to the Company during the relevant year, may be entitled to receive a cash bonus for that year, relative to the period in which he/she performed their duties during the relevant year. An executive officer who joins the Company during the relevant year, may be entitled to a portion of the bonus, relative to the period in which he/she performed their duties during the relevant year.

### 5.2.3 Equity Based Compensation

As part of the overall Officers compensation package in publicly traded companies in Perion's industry, it is standard practice to offer equity based compensation, which aims to establish proximity of interest between the relevant Officers' interest and the interest of the shareholders of the Company. Given the long term nature of the equity compensation plans, they support the ability of the Company to retain its senior managers in their positions for longer periods.

In light of the advantages that stem from equity compensation plans, Perion will offer its Officers the opportunity of participating in an equity compensation plan, based on the following guidelines:

#### **5.2.3.1 Equity Based Compensation Grants:**

Equity-based awards may be granted upon recruitment of an Officer and/or additional/ other grants from time to time, and while taking into consideration, inter alia, the role, personal responsibilities, prior business experiences and qualifications of the Officer.

#### **5.2.3.2 Equity Compensation Terms**

The equity plan will be defined and implemented in a manner that complies with the requirements of the relevant law of the countries in which the Officers are residing or are employed. The equity compensation may be comprised of various instruments such as stock options, restricted stock units (RSU's), or other equity based or equity equivalent compensation instruments.

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Any grant of equity based or equity equivalent compensation shall meet the following terms:

- The value of the equity based compensation (at the date of grant) per vesting annum (on a linear basis), for each Officer, shall not exceed 4 annual salaries for the CEO, and for the other Officers 2.6 annual salaries. However, the Compensation Committee and the BOD (subject to any additional required approvals) may determine in their sole discretion to deviate from the above mentioned caps in the following circumstances:
  - (i) for the purpose of a one-time grant of equity based compensation in connection with the recruitment of a new Officer (including as a result of an M&A transaction), the value of the equity based compensation (at the date of grant) per vesting annum (on a linear basis), for such new Officer shall not exceed, 3.6 annual salaries for other Officers; or
  - (ii) in cases where the BOD has determined that special circumstances exist (for example, in connection with an M&A transaction) which justify deviation from the above caps, the value of the equity based compensation (at the date of grant) per vesting annum (on a linear basis) shall not exceed in such circumstances 125% of the maximum values detailed above (i.e. above 2.6 annual salaries).
- Equity based compensation granted to Officers shall vest between 2-4 years, unless the shareholders approve otherwise. The Compensation Committee and the BOD may determine acceleration provisions for specific circumstances.
- In addition to time-based vesting, the exercise or settlement of part or all of the equity based compensation of certain Officers may also be subject to the achievement of predetermined performance goals. Terms of equity based compensation will also include terms in connection with the Officer's termination or cessation of service (due to dismissal, resignation, death or disability) and changes in Company ownership. This may include provisions for extending the period for exercise of equity based compensation upon such termination, enabling acceleration of vesting of unvested equity based compensation, etc.

The Compensation Committee and the BOD also considered setting a cap on value for equity based compensation at the time of exercise and concluded that this would not be advisable for Perion mainly in light of the dynamic nature of the Company's structure and business, among other things, due to its M&A strategy, as well as technical difficulties in implementing such cap.

### 5.3 Additional terms and fringe benefits

The Company will provide all Company Officers with benefits and perquisites according to Company procedures and any relevant local legislation, regulation or accepted business practices, as detailed in Section 4 above.

The Company may pay for additional life and/or health insurance policies for Officers in accordance with their personal situation as deemed fit.

## 6. Retirement and Termination Arrangements

### 6.1 Advance Notice

Officers will be entitled to an Advance Notice period prior to termination of employer/ employee relations. The maximum duration of the Advance Notice Period will be as follows:

Position	Advance Notice Period
CEO, and other Officers.	Up to 12 months

The actual Advance Notice period for each Officer will be determined as part of each Officer's employment agreement.

During the Advance Notice period, the Officer is entitled to receive all of his or her compensation without change, including participation in bonus plans and continued vesting of equity based compensation.

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Unless the BOD decides to release the Officer from this obligation, or agreed otherwise in the employment agreement, the Officer may be required to continue performing all role responsibilities during the Advance Notice period, as suits the Company's business interests.

## **6.2 Termination Cash Payments**

The Compensation Committee and the BOD may approve an additional termination payment for an Officer provided such payment does not exceed the equivalent of 6 monthly salaries. In this regard, the Compensation Committee and BOD shall take into consideration the Officer's term of employment, the Officer's compensation during employment with the Company, the Company's performance during such period, the contribution of the Officer to achieving the Company's goals and the circumstances of termination, and will only be paid if the Officer is employed by the Company for at least 3 years and the termination is not for cause.

For the removal of doubt, the above is in addition to any rights for severance any officer is entitled to under law or any advance notice.

## **6.3 Treatment of Equity Awards upon Termination**

The Compensation Committee and the BOD may approve, upon termination of an Officer's employment to extend the period of time for which an equity based award is to remain exercisable and/or accelerate the vesting of any equity based award.

## **7. Indemnification, Exemption and Insurance of Directors and Officers**

The Directors and Officers will be covered by a Directors and Officers liability insurance policy, to be periodically purchased by the Company, subject to the requisite approvals under the Companies Law. The maximum aggregate coverage for any such insurance policy will be USD 100 million, as may be increased from time to time by the Company's shareholders, and the premiums payable by the Company per annum shall not exceed USD 1 million. If required, the company may purchase a Run Off Directors and Officers liability insurance policy for a period of up to 7 years at a premium which shall not exceed 350% of the annual premium of the Ongoing Directors and Officers liability insurance policy which will be valid at that time. Both Ongoing & Run off Directors and Officers liability insurance policies may include Side A Difference in Conditions coverage with a maximum aggregate limit of liability of USD \$20M which will be part of the maximum aggregate limit of liability of USD \$100M as specified above.

The Company may indemnify and exculpate its Directors and Officers for any liability that may be imposed on them to the fullest extent permitted by applicable law, subject to the requisite approvals under the Companies Law.

## **8. Directors' Compensation**

### **8.1 Cash Compensation**

The cash compensation of directors will be determined in accordance with the Companies Law, Compensation Regulations for External Directors and/or the Companies Regulations (Relief for Public Companies whose Shares are Traded in a Stock Exchange Outside Israel) (together, the "**Regulations**"), as the case may be, and shall not exceed the maximum compensation permitted by these Regulations. The compensation of directors may be comprised of a per-meeting compensation and/or an annual compensation and/or board committee chair compensation and/or board committee member compensation and/or equity based compensation (as discussed below), all subject to any applicable law.

The above compensation relates to directors that do not hold an executive position with the Company. For a chairman of the board of directors, or any other director holding an executive position with the Company, the provisions of this policy relating to an Officer (up to the caps applicable to the CEO) may apply.

### **8.2 Equity based compensation**

The Company may grant equity based awards to its Directors based on the terms of the applicable equity plan of the Company and in accordance with the Companies Law and Regulations, as detailed above in Section 5.2.3.

The value of the equity based compensation (at the time date of grant) per vesting annum (on a linear basis) year, for each Director that does not hold an executive position with the Company and is not the chairman of the board of directors, shall not exceed USD 200,000.

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FIRST AMENDMENT TO CREDIT AGREEMENT

THIS FIRST AMENDMENT TO CREDIT AGREEMENT dated as of March 4, 2016 (this "Amendment"), by and among INTERACTIVE HOLDING CORP., a Delaware corporation (the "Borrower"), INCREDITONE INC., a Delaware corporation ("Holdings"), each of the Guarantors party hereto, each of the financial institutions party hereto as "Lenders" (the "Lenders") and SUNTRUST BANK, in its capacity as Administrative Agent (in such capacity, the "Administrative Agent").

WITNESSETH:

WHEREAS, the Borrower, Holdings, SunTrust Bank, Silicon Valley Bank, Comerica Bank and the Administrative Agent are parties to that certain Credit Agreement dated as of November 30, 2015 (the "Credit Agreement"); and

WHEREAS, in connection with the purchase on the date hereof by Cadence Bank of (i) \$10,000,000 in principal amount of Term Loans held by Comerica Bank, (ii) \$3,333,333.34 in principal amount of Term Loans held by SunTrust Bank and (iii) \$3,333,333.33 in principal amount of Term Loans held by Silicon Valley Bank, the Borrower has requested certain amendments to the Credit Agreement, including a request to provide Aggregate Revolving Commitments in an amount equal to \$10,000,000 from the Lenders; and

WHEREAS, the Lenders and the Administrative Agent are willing to so amend the Credit Agreement on and subject to the terms and conditions herein.

NOW, THEREFORE, for and in consideration of the above premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by the parties hereto, the parties hereto hereby agree as follows:

**1. Defined Terms.** Capitalized terms which are used herein without definition and which are defined in the Credit Agreement shall have the same meanings herein as in the Credit Agreement; provided, that, solely for purposes of this Amendment, Perion Network Ltd. shall be deemed to be included in the definition of the term "Loan Party".

**2. Amendments to Credit Agreement.**

(a) The Credit Agreement is hereby amended by deleting the defined terms "Aggregate Revolving Commitment Amount", "Consolidated EBITDA", "LC Commitment", "Permitted Third Party Bank" and "Swingline Commitment" in Section 1.1. thereof and substituting in lieu thereof the following defined terms, respectively:

"Aggregate Revolving Commitment Amount" shall mean the aggregate principal amount of the Aggregate Revolving Commitments from time to time. On March 4, 2016, the Aggregate Revolving Commitment Amount is \$10,000,000.

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"Consolidated EBITDA" shall mean, for the Borrower and its Subsidiaries for any period, an amount equal to the sum of (i) Consolidated Net Income for such period plus (ii) to the extent deducted in determining Consolidated Net Income for such period and to the extent not excluded from Consolidated Net Income pursuant to the definition thereof, and without duplication, (A) Consolidated Interest Expense, (B) income tax expense determined on a consolidated basis in accordance with GAAP, (C) depreciation and amortization determined on a consolidated basis in accordance with GAAP, (D) non-cash charges related to the mark-to-market treatment of obligations under Hedging Transactions, (E) any extraordinary, unusual or non-recurring expenses or losses or restructuring charges or costs, all as determined in accordance with GAAP; provided, that, the amount under this clause (E) shall not exceed (x) \$1,250,000 in the aggregate for any period of four (4) consecutive Fiscal Quarter period through December 31, 2016 and (y) and \$1,000,000 in the aggregate during any Fiscal Year after December 31, 2016; (F) transaction costs and expenses paid in cash in connection with the Related Transactions in an aggregate amount not to exceed \$13,756,501; (G) non-cash charges related to the Great Plains accounting software and related services; provided, that, the amount under this clause (G) shall not exceed \$650,000 in the aggregate; and (H) all non-cash foreign currency exchange losses or charges and non-cash expenses deducted as a result of any grant of Capital Stock to employees, officers or directors for such period (but excluding any non-cash loss, charge or expense that is an accrual of or a reserve for a cash expenditure or payment to be made, or anticipated to be made, in a future period); provided that, for purposes of calculating compliance with the financial covenants set forth in Article VI, to the extent that during such period any Borrower Loan Party shall have consummated a Permitted Acquisition or other Acquisition approved in writing by the Required Lenders, or any sale, transfer or other disposition of any Person, business, property or assets, Consolidated EBITDA shall be calculated on a Pro Forma Basis with respect to such Person, business, property or assets so acquired or disposed of. Notwithstanding the foregoing, but subject to any adjustment set forth above with respect to the immediately preceding proviso, Consolidated EBITDA shall be \$10,118,601, \$667,379, \$6,920,800 and \$6,645,632 for the Fiscal Quarters ended December 31, 2014, March 31, 2015, June 30, 2015 and September 30, 2015, respectively.

"LC Commitment" shall mean that portion of the Aggregate Revolving Commitments that may be used by the Borrower for the issuance of Letters of Credit in an aggregate face amount not to exceed \$3,000,000.

"Permitted Third Party Bank" shall mean SunTrust Bank, Silicon Valley Bank, Cadence Bank (or with the consent of the Agent (such consent not to be unreasonably withheld or delayed), another Lender or financial institution) and with whom any Loan Party maintains a Controlled Account and with whom a Control Account Agreement has been executed.

"Swingline Commitment" shall mean the commitment of the Swingline Lender to make Swingline Loans in an aggregate principal amount at any time outstanding not to exceed \$3,000,000.

(b) The Credit Agreement is hereby further amended by adding the following new defined term "Israel Subsidiary" to Section 1.1. thereof in the appropriate alphabetical order:

"Israel Subsidiary" shall mean, as long as it is not a Subsidiary Loan Party, any Subsidiary of the Borrower organized under the laws of the State of Israel.

(c) The Credit Agreement is hereby further amended by deleting "75 days after the Closing Date" in the first line of Section 5.11 of the Credit Agreement and substituting "March 31, 2016 (except in the case of the establishment and maintenance of a Controlled Account with HSBC Bank USA, National Association, which shall be no later than May 17, 2016)" in lieu thereof.

(d) The Credit Agreement is hereby further amended by adding the following at the end of Section 5.11:

"Prior to May 17, 2016, the parties hereto agree that account number 1894408945 at Comerica Bank (the "Excluded Account") shall not be required to be subject to a Control Account Agreement pursuant to this Section 5.11 so long as the Borrower shall cause any and all cash at any time held in the Excluded Account to be swept and deposited on a daily basis into a Controlled Account with a Permitted Third Party Bank which is subject to a Control Account Agreement."



(e) The Credit Agreement is hereby further amended by deleting "commencing within ninety (90) days after the Closing Date" in the first line of Section 5.15 of the Credit Agreement and substituting "no later than May 17, 2016" in lieu thereof.

(f) The Credit Agreement is hereby further amended by deleting clause (d) in Section 7.4 thereof in its entirety and substituting in lieu thereof the following:

"(d) Investments made by the Borrower in or to any Subsidiary of the Borrower and by any Subsidiary of the Borrower to the Borrower or in or to another Subsidiary of the Borrower; provided that the aggregate amount of Investments by the Borrower Loan Parties in or to, and Guarantees by the Borrower Loan Parties of Indebtedness of, (i) any Subsidiary of the Borrower that is not a Subsidiary Loan Party (other than an Israel Subsidiary) shall not exceed \$1,000,000 in the aggregate for all such Subsidiaries in any Fiscal Year and (ii) any Israel Subsidiary shall not exceed (A) for the Fiscal Year ending December 31, 2016, an amount equal to \$3,000,000 in the aggregate for all such Israel Subsidiaries, (B) for the Fiscal Year ending December 31, 2017, an amount equal to 15% of Consolidated EBITDA for the Fiscal Year ending December 31, 2016 (with such limit to be an aggregate amount for all such Israel Subsidiaries), (C) for the Fiscal Year ending December 31, 2018, an amount equal to 12.5% of Consolidated EBITDA for the Fiscal Year ending December 31, 2017 (with such limit to be an aggregate amount for all such Israel Subsidiaries) and (D) for the Fiscal Year ending December 31, 2019, an amount equal to 12.5% of Consolidated EBITDA for the Fiscal Year ending December 31, 2018 (with such limit to be an aggregate amount for all such Israel Subsidiaries); provided, further, that (1) both at the time of and immediately after giving effect to any such Investment, no Default or Event of Default shall have occurred and be continuing or shall result from the making of such Investment, (2) after giving effect to any such Investment, the *pro forma* Total Leverage Ratio of Borrower and its Subsidiaries shall not exceed the Total Leverage Ratio required under Section 6.1 as of the most recently ended Fiscal Quarter minus 0.25 to 1.00 (and in the case prior to the Fiscal Quarter ended March 31, 2016, such Total Leverage Ratio shall not exceed 2.25:1.00), calculated as if any Borrowing or other Indebtedness used to finance such Investment (if any) had been funded as of the first day of the relevant period of measurement and (3) immediately after giving effect to such Investment the sum of (i)(x) the Aggregate Revolving Commitment Amount minus (y) the aggregate principal amount of all Revolving Credit Exposure plus (ii) cash on hand (that is either unencumbered or in Controlled Accounts) of the Loan Parties is at least \$7,500,000;"

(g) The Credit Agreement is hereby further amended by deleting all references to "Schedule II" contained in the Credit Agreement and substituting in lieu thereof "Schedule I".

(h) The Credit Agreement is hereby further amended by deleting Schedule I thereto in its entirety and substituting in lieu thereof Schedule I attached hereto.

(i) The parties hereto acknowledge that certain Indebtedness of the Loan Parties in the form of letters of credit are outstanding and described on Schedule 7.1 (other than the Letter of Credit dated June 28, 2012 for the benefit of 101 California Venture for the amount of \$75,000 (the "101 CA Venture LC")) (such letters of credit (other than the 101 CA Venture LC), collectively, the "Existing Letters of Credit"). The parties hereto further acknowledge that the Existing Letters of Credit are secured by cash collateral in a deposit account described on Schedule 7.2 (the "Existing LC Cash Collateral Account") and in Section 5.11(a)(iii), and that such cash collateral is "Excluded Property" under the Guaranty and Security Agreement. The Administrative Agent and the Lenders hereby acknowledge and agree that, notwithstanding the terms of the Credit Agreement or any other Loan Document: (i) the Existing Letters of Credit may be replaced from time to time with one or more replacement letters of credit issued by any Person or Persons in favor of the beneficiary of such Existing Letter of Credit that is being replaced (each a "Replacement Letter of Credit") so long as the aggregate stated amount of the Existing Letters of Credit and any Replacement Letters of Credit issued in replacement thereof shall not exceed the aggregate stated amount of the Existing Letters of Credit as of the date hereof, provided that any Replacement Letter of Credit may be outstanding at the same time as its corresponding Existing Letter of Credit for a reasonable period of time, not to exceed five (5) Business Days, (ii) the cash collateral held in the Existing LC Cash Collateral Account may be used (and such cash may be removed from the Existing LC Cash Collateral Account and deposited into one or more deposit accounts with other financial institutions for the purpose of serving as cash collateral with such deposit accounts subject to a Lien for the benefit of the financial institutions issuing the replacement letters of credit described in clause (i) immediately above) as credit support for such replacement letters of credit described in clause (i) immediately above so long as such cash collateral does not, in the aggregate, exceed \$1,182,314, provided that for a reasonable period of time, not to exceed five (5) Business Days, the Existing LC Cash Collateral Account and the accounts holding cash collateral used for the purpose of providing credit support for such Replacement Letters of Credit may both be outstanding and the amount of such cash collateral may exceed \$1,182,314 but shall not exceed the aggregate stated amount of the outstanding Existing Letters of Credit and any Replacement Letters of Credit described in clause (i) immediately above, (iii) for purposes of Section 5.11(a)(iii) and the definition of "Excluded Property" in the Guaranty and Security Agreement, the Existing LC Cash Collateral Account and the cash collateral held therein shall be deemed to include any new deposit accounts created for the Replacement Letters of Credit allowed by clause (i) immediately above and any cash collateral used for the purpose of providing credit support for such Replacement Letters of Credit as described in clause (ii) immediately above, and (iv) Funded Debt shall not include the replacement letters of credit described in clause (i) immediately above.

**3. Waiver.** Subject to the satisfaction of the conditions set forth in Section 4 below, in reliance on the representations and warranties set forth in Sections 5 and 6 below, and subject to the limitations set forth in Section 7 below, the Lenders hereby waive any Default or Event of Default existing on or prior to the date hereof arising solely under (i) Section 7.4(d) of the Credit Agreement to the extent such Default or Event of Default is attributable to Investments made prior to the Closing Date and (ii) Sections 5.11 and 5.15 of the Credit Agreement. The foregoing waiver shall not apply to any Default or Event of Default that may arise as a result of any event or circumstance that occurs or continues after the date on which the conditions precedent set forth in Section 4 hereof shall have been met (or duly waived). The Borrower acknowledges and agrees that the waiver contained in this Section 3 shall not waive or amend (or be deemed to be or constitute an amendment to or waiver of) any other covenant, term or provision in the Credit Agreement or hinder, restrict or otherwise modify the rights and remedies of the Lenders and the Administrative Agent following the occurrence of any other present or future Default or Event of Default under the Credit Agreement or any other Loan Document. The Borrower and Holdings represent and warrant to the Administrative Agent and the Lenders that, for the period from and including the Closing Date through the date of this Amendment, the Borrower has (x) made Investments pursuant to Section 7.4(d)(ii)(A) in an aggregate amount equal to \$27,886 (which Investments are and remain outstanding in such amount as of the date hereof) and (y) made Investments pursuant to Section 7.4(d)(i) in an aggregate amount equal to \$453,460 (which Investments are and remain outstanding in such amount as of the date hereof).

**4. Conditions Precedent to Effectiveness.** The effectiveness of this Amendment is subject to the truth and accuracy of the warranties and representations set forth in Sections 5 and 6 below and receipt by the Administrative Agent of each of the following, each of which shall be in form and substance satisfactory to Administrative Agent:

(a) This Amendment, duly executed and delivered by the Borrower, Holdings, the Subsidiary Loan Parties, the Lenders and the Administrative Agent;

(b) A certificate of the Borrower dated as of the date hereof signed by a Responsible Officer of the Borrower certifying that, immediately before and after giving effect to this Amendment (i) the representations and warranties contained in Article IV of the Credit Agreement and the other Loan Documents are true and correct on and as of the date hereof, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they shall have been true and correct as of such earlier date; (ii) since December 31, 2014, there has been no event, development or circumstance, either individually or in the aggregate, that has had or could reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect; and (iii) no Default or Event of Default (other than such Default or Event of Default expressly waived by Section 3 above) has occurred and is continuing as of the date hereof and no Default or Event of Default will exist after giving effect to the amendments contemplated by this Amendment;

(c) For the account of each Lender that has requested a promissory note in respect of such Lender's Revolving Commitment, a promissory note evidencing such Lender's Revolving Commitment, duly executed by a Responsible Officer of the Borrower;

(d) A Reaffirmation of Obligations Under Loan Documents (the "Reaffirmation") dated as of the date hereof duly executed by each Loan Party, in the form of Exhibit I attached hereto

(e) A legal opinion addressed to the Administrative Agent and each of the Lenders from Kramer Levin Naftalis & Frankel LLP, counsel to the Borrower and Holdings, which opinion shall be dated the date hereof and covering such matters relating to the Borrower, Holdings, this Amendment, and the transactions contemplated hereby as the Administrative Agent or the Lenders shall reasonably request;

(f) A certificate, dated as of the date hereof, signed by the Secretary of the Borrower, together with the resolutions of the Borrower in respect of the authorization and approval of the transactions contemplated by this Amendment;

(g) Certified copies of all consents, approvals, authorizations, registrations and filings and orders required to be made or obtained under applicable law, if any, or by any Contractual Obligation of each Loan Party, in connection with the execution, delivery, performance, validity and enforceability of this Amendment or any of the transactions contemplated hereby, and such consents, approvals, authorizations, registrations, filings and orders shall be in full force and effect and all applicable waiting periods shall have expired;

(h) The payment of all fees and other amounts due and payable on or prior to the effective date of this Amendment, including (x) reimbursement or payment of all out-of-pocket expenses (including reasonable fees, charges and disbursements of counsel to the Administrative Agent) required to be reimbursed or paid by the Borrower and Holdings hereunder and under that certain engagement letter dated February 18, 2016 among the Borrower, Holdings and the Lenders and (y) the fees owing under that certain fee letter dated February 18, 2016 among the Borrower, Holdings and the Lenders; and

(i) Such other documents as the Administrative Agent may reasonably request.

**5. Representations.** Each of the Borrower and Holdings represents and warrants to the Administrative Agent and the Lenders that:

( a ) Power and Authority. Each of the Borrower and the other Loan Parties have the power and authority to execute, deliver and perform the terms and provisions of this Amendment and the Credit Agreement, as amended by this Amendment, and have taken all necessary corporate action to duly authorize the execution, delivery and performance of this Amendment. Each of this Amendment and the Credit Agreement, as amended by this Amendment, constitutes the legal, valid and binding obligation of the Borrower and Holdings enforceable in accordance with its terms, except to the extent that the enforceability thereof may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws generally affecting creditors' rights and by equitable principles.

(b) No Violation. The execution, delivery and performance by the Borrower and the other Loan Parties of this Amendment, and compliance by them with the terms and provisions of the Credit Agreement, as amended by this Amendment: (i) will not contravene any provision of any law, statute, rule or regulation or any order, writ, injunction or decree of any court or federal, state or local Governmental Authority, (ii) will not conflict with or result in any breach of any of the terms, covenants, conditions or provisions of, or constitute a default under, or result in the creation or imposition of (or the obligation to create or impose) any lien upon any of the property or assets of any Loan Party pursuant to the terms of any indenture, mortgage, deed of trust, credit agreement or loan agreement, or any other agreement, contract or instrument, to which any Loan Party is a party or by which they or any of their property or assets is bound or to which they may be subject or (iii) will not violate any provision of the certificate or articles of incorporation or bylaws of the Borrower, Holdings or any other Loan Party.

(c) Governmental Approvals. No order, consent, approval, license, authorization or validation of, or filing, recording or registration with (except for those that have otherwise been obtained or made on or prior to the date of the effectiveness of this Amendment and which remain in full force and effect on such date), or exemption by, any Governmental Authority, is required to authorize, or is required in connection with, (i) the execution, delivery and performance of this Amendment by the Borrower or Holdings or (ii) the legality, validity, binding effect or enforceability of the Credit Agreement, as amended by this Amendment against the Borrower or Holdings.

(d) No Default. No Default or Event of Default (other than such Default or Event of Default expressly waived by Section 3 above) has occurred and is continuing as of the date hereof and no Default or Event of Default will exist immediately after giving effect to this Amendment.

(e) No Impairment. The execution, delivery, performance and effectiveness of this Amendment will not: (a) impair the validity, effectiveness or priority of the Liens granted pursuant to any Loan Document, and such Liens continue unimpaired with the same priority to secure repayment of all of the applicable Obligations, whether heretofore or hereafter incurred, and (b) require that any new filings be made or other action taken to perfect or to maintain the perfection of such Liens.

(f) Solvency. As of the date hereof, on a pro forma basis after giving effect to the Revolving Commitments contemplated hereby and to all Indebtedness incurred, and to be incurred under such Revolving Commitments, the Borrower and each other Loan Party is Solvent.

**6. Reaffirmation of Representations**. Each of the Borrower, Holdings and the Subsidiary Loan Parties hereby repeats and reaffirms all representations and warranties made to the Administrative Agent and the Lenders in the Credit Agreement and the other Loan Documents on and as of the date hereof (and after giving effect to this Amendment) with the same force and effect as if such representations and warranties were set forth in this Amendment in full (except to the extent that such representations and warranties relate expressly to an earlier date, in which case such representations and warranties were true and correct as of such earlier date).

**7. No Further Amendments; Ratification of Liability**. Except as expressly amended or waived hereby, the Credit Agreement and each of the other Loan Documents shall remain in full force and effect in accordance with their respective terms, and the Lenders and the Administrative Agent hereby require strict compliance with the terms and conditions of the Credit Agreement and the other Loan Documents in the future. Each of the Borrower, Holdings and the Subsidiary Loan Parties hereby (i) restates, ratifies, confirms and reaffirms its respective liabilities, payment and performance obligations (contingent or otherwise) and each and every term, covenant and condition set forth in the Credit Agreement and the other Loan Documents to which it is a party, all as amended by this Amendment, and the liens and security interests granted, created and perfected thereby and (ii) acknowledges and agrees that this Amendment shall not in any way affect the validity and enforceability of any Loan Document to which it is a party, or reduce, impair or discharge the obligations of the Borrower, Holdings, the Subsidiary Loan Parties or the Collateral granted to the Administrative Agent and/or the Lenders thereunder. The Lenders' agreement to the terms of this Amendment or any other amendment of the Credit Agreement or any other Loan Document shall not be deemed to establish or create a custom or course of dealing between the Borrower, Holdings, the Subsidiary Loan Parties or the Lenders, or any of them. This Amendment shall be deemed to be a "Loan Document" for all purposes under the Credit Agreement. After the effectiveness of this Amendment, each reference to the Credit Agreement in any of the Loan Documents shall be deemed to be a reference to the Credit Agreement as amended by this Amendment.

**8. Other Provisions.**

(a) This Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed to be an original, and all counterparts, taken together, shall constitute but one and the same document.

(b) The Borrower agrees to reimburse the Administrative Agent on demand for all reasonable costs and expenses (including, without limitation, reasonable and documented legal counsels' fees; provided that such counsel shall be limited to one legal counsel and, to the extent necessary, one local counsel in each relevant jurisdiction for the Administrative Agent and the Lenders, collectively, in each case selected by the Administrative Agent) incurred by the Administrative Agent in negotiating, documenting and consummating this Amendment, the other documents referred to herein, and the transactions contemplated hereby and thereby.

(c) THIS AMENDMENT SHALL BE GOVERNED BY AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH AND BE GOVERNED BY THE LAW (WITHOUT GIVING EFFECT TO THE CONFLICT OF LAW PRINCIPLES THEREOF THAT WOULD RESULT IN THE APPLICATION OF ANY LAW OTHER THAN THE LAW OF THE STATE OF NEW YORK) OF THE STATE OF NEW YORK.

(d) THIS AMENDMENT CONSTITUTES THE ENTIRE CONTRACT AMONG THE PARTIES HERETO RELATING TO THE SUBJECT MATTER HEREOF AND SUPERSEDES ANY AND ALL PREVIOUS DISCUSSIONS, CORRESPONDENCE, AGREEMENTS AND OTHER UNDERSTANDINGS, WHETHER ORAL OR WRITTEN, RELATING TO THE SUBJECT MATTER HEREOF.

(e) Each of the Borrower, Holdings and the Subsidiary Loan Parties agrees to take all further actions and execute such other documents and instruments as the Administrative Agent may from time to time reasonably request to carry out the transactions contemplated by this Amendment, the Loan Documents and all other agreements executed and delivered in connection herewith.

(f) THE PARTIES HERETO HAVE ENTERED INTO THIS AMENDMENT SOLELY TO AMEND TERMS OF THE CREDIT AGREEMENT. THE PARTIES DO NOT INTEND THIS AMENDMENT NOR THE TRANSACTIONS CONTEMPLATED HEREBY TO BE, AND THIS AMENDMENT AND THE TRANSACTION CONTEMPLATED HEREBY SHALL NOT BE CONSTRUED TO BE, A NOVATION OF ANY OF THE OBLIGATIONS OWING BY ANY LOAN PARTY UNDER OR IN CONNECTION WITH THE CREDIT AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS TO WHICH A LOAN PARTY IS A PARTY.

IN WITNESS WHEREOF, the Borrower, Holdings, the Subsidiary Loan Parties, the Lenders and the Administrative Agent have caused this First Amendment to Credit Agreement to be duly executed by their respective duly authorized officers and representatives as of the day and year first above written.

INTERACTIVE HOLDING CORP.

By: /s/ Yacov Kaufman  
Name: Yacov Kaufman  
Title: Director

By: /s/ Josef Mandelbaum  
Name: Josef Mandelbaum  
Title: Director

INCREDITONE INC.

By: /s/ Yacov Kaufman  
Name: Yacov Kaufman  
Title: Chief Financial Officer

By: /s/ Josef Mandelbaum  
Name: Josef Mandelbaum  
Title: Chief Executive Officer

[Signature Page to First Amendment to Credit Agreement]

INTERCEPT INTERACTIVE INC.

By: /s/ Michael Waxman-Lenz  
Name: Michael Waxman-Lenz  
Title: Chief Financial Officer

UUU HOLDING, LLC

By: /s/ Michael Waxman-Lenz  
Name: Michael Waxman-Lenz  
Title: Chief Financial Officer

SPARK FLOW LLC

By: /s/ Michael Waxman-Lenz  
Name: Michael Waxman-Lenz  
Title: Chief Financial Officer

JAMBO MEDIA LLC

By: /s/ Michael Waxman-Lenz  
Name: Michael Waxman-Lenz  
Title: Chief Financial Officer

WORLD WEB NETWORK HOLDING COMPANY, LLC

By: /s/ Michael Waxman-Lenz  
Name: Michael Waxman-Lenz  
Title: Chief Financial Officer

[Signature Page to First Amendment to Credit Agreement]

SUNTRUST BANK, in its capacities as a Lender and as Administrative Agent

By: /s/ Kevin Curtis

Name: Kevin Curtis

Title: Director

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SILICON VALLEY BANK, as a Lender

By: /s/ Michael Moretti  
Name: Michael Moretti  
Title: Managing Director

[Signature Page to First Amendment to Credit Agreement]

CADENCE BANK, as a Lender

By: /s/ Steve Prichett

Name: Steve Prichett

Title: EVP

[End of Signatures]

[Signature Page to First Amendment to Credit Agreement]

## SECOND AMENDMENT TO CREDIT AGREEMENT AND WAIVER

THIS SECOND AMENDMENT TO CREDIT AGREEMENT AND WAIVER is dated as of May 8, 2016 (this "Amendment"), by and among INTERACTIVE HOLDING CORP., a Delaware corporation (the "Borrower"), INCREDITONE INC., a Delaware corporation ("Holdings"), each of the Guarantors party hereto, each of the financial institutions party hereto as "Lenders" (the "Lenders") and SUNTRUST BANK, in its capacity as Administrative Agent (in such capacity, the "Administrative Agent").

### WITNESSETH:

WHEREAS, the Borrower, Holdings, certain of the Lenders and the Administrative Agent are parties to that certain Credit Agreement dated as of November 30, 2015, as amended by that certain First Amendment to Credit Agreement dated as of March 4, 2016 (the "Credit Agreement");

WHEREAS, the Administrative Agent and the Lenders have been made aware of certain Events of Default listed on Schedule 1 attached hereto (the "Specified Defaults") that have occurred and are continuing under the Credit Agreement;

WHEREAS, the Borrower has requested that the Administrative Agent and the Lenders waive the Specified Defaults and amend certain provisions of the Credit Agreement, all as more particularly set forth below;

WHEREAS, subject to the terms and conditions set forth herein, the Administrative Agent and the Lenders are willing to so waive the Specified Defaults and amend the Credit Agreement, all on the terms and conditions contained in this Amendment;

NOW, THEREFORE, for and in consideration of the above premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by the parties hereto, the parties hereto hereby agree as follows:

Section 1. Defined Terms. Capitalized terms which are used herein without definition and which are defined in the Credit Agreement shall have the same meanings herein as in the Credit Agreement; provided, that, solely for purposes of this Amendment, Perion Network Ltd. shall be deemed to be included in the definition of the term "Loan Party".

#### Section 2. Amendments to Credit Agreement.

(a) The Credit Agreement is hereby amended by restating Section 5.1(c) thereof in its entirety as follows:

(b) beginning May 10, 2016 until the occurrence of an Excluded Account Event, on the second Business Day of each calendar week a written report, in form and substance satisfactory to the Administrative Agent, detailing, as of the last Business Day of the immediately prior calendar week (i) the aggregate dollar amount of checks issued and outstanding on the Excluded Account and (ii) the balance on deposit in the Excluded Account;

(c) The Credit Agreement is hereby amended by deleting "March 31, 2016" in the first line of Section 5.11 of the Credit Agreement and substituting "August 31, 2016" in lieu thereof.

(d) The Credit Agreement is hereby further amended by restating the last sentence of Section 5.11 thereof in its entirety as follows:

"The parties hereto agree that, prior to August 31, 2016, account number 1894408945 at Comerica Bank (the "Excluded Account") shall not be required to be subject to a Control Account Agreement pursuant to this Section 5.11. On and after August 31, 2016, the Excluded Account shall either (i) be subject to a Control Account Agreement, (ii) qualify and continue to be maintained as an Unrestricted Account or (iii) be closed (the occurrence of any of the foregoing, an "Excluded Account Event"). Notwithstanding the foregoing, on and after May 8, 2016, the Borrower shall cause any and all cash at any time held in the Excluded Account to be swept and deposited on a daily basis into a Controlled Account with a Permitted Third Party Bank which is subject to a Control Account Agreement; provided, however that the Borrower shall be permitted to maintain a cash balance in the Excluded Account in an amount not exceeding the amount necessary, in Borrower's reasonable discretion, to cover (i) the amount of any checks issued by the Borrower or any of its Subsidiaries that have not cleared the Excluded Account and (ii) expense payables of the Borrower and its Subsidiaries in the ordinary course of business that are due during the next 15 consecutive days."

Section 3. Waiver. Subject to the satisfaction of the conditions set forth in Section 4 below, in reliance on the representations and warranties set forth in Sections 5 and 7 below, and subject to the limitations set forth in Section 8 below, the Lenders hereby waive the Specified Defaults. The Borrower acknowledges and agrees that the waiver contained in this Section 3 shall not waive or amend (or be deemed to be or constitute an amendment to or waiver of) any other covenant, term or provision in the Credit Agreement or hinder, restrict or otherwise modify the rights and remedies of the Lenders and the Administrative Agent following the occurrence of any other present or future Default or Event of Default under the Credit Agreement or any other Loan Document. The waiver of each Specified Default set forth above is solely with respect to the period(s) corresponding to such Specified Default prior to the date hereof.

Section 4. Conditions Precedent to Effectiveness. The effectiveness of this Amendment is subject to the truth and accuracy of the warranties and representations set forth in Sections 5 and 7 below and receipt by the Administrative Agent of each of the following, each of which shall be in form and substance satisfactory to Administrative Agent:

(a) This Amendment, duly executed and delivered by the Borrower, Holdings, the Subsidiary Loan Parties, the Required Lenders and the Administrative Agent;

(b) A certificate of the Borrower dated as of the date hereof signed by a Responsible Officer of the Borrower certifying that, immediately before and after giving effect to this Amendment (i) the representations and warranties contained in Article IV of the Credit Agreement and the other Loan Documents are true and correct on and as of the date hereof, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they shall have been true and correct as of such earlier date; (ii) since December 31, 2014, there has been no event, development or circumstance, either individually or in the aggregate, that has had or could reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect; and (iii) no Default or Event of Default (other than such Default or Event of Default expressly waived by Section 3 above) has occurred and is continuing as of the date hereof and no Default or Event of Default will exist after giving effect to the amendments contemplated by this Amendment;

(c) A Reaffirmation of Obligations Under Loan Documents (the "Reaffirmation") dated as of the date hereof duly executed by each Loan Party, in the form of Exhibit I attached hereto;

(d) The payment of all fees and other amounts due and payable on or prior to the effective date of this Amendment, including reimbursement or payment of all out-of-pocket expenses (including reasonable fees, charges and disbursements of counsel to the Administrative Agent in connection with the preparation, negotiation, execution and delivery of this Amendment and the other documents and agreements executed and delivered in connection herewith) required to be reimbursed or paid by the Borrower and Holdings hereunder; and

- (e) Such other documents as the Administrative Agent may reasonably request.

Section 5. Representations. Each of the Borrower and Holdings represents and warrants to the Administrative Agent and the Lenders that:

(g) Power and Authority. Each of the Borrower and the other Loan Parties have the power and authority to execute, deliver and perform the terms and provisions of this Amendment and the Credit Agreement, as amended by this Amendment, and have taken all necessary corporate action to duly authorize the execution, delivery and performance of this Amendment. Each of this Amendment and the Credit Agreement, as amended by this Amendment, constitutes the legal, valid and binding obligation of the Borrower and Holdings enforceable in accordance with its terms, except to the extent that the enforceability thereof may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws generally affecting creditors' rights and by equitable principles.

(h) No Violation. The execution, delivery and performance by the Borrower and the other Loan Parties of this Amendment, and compliance by them with the terms and provisions of the Credit Agreement, as amended by this Amendment: (i) will not contravene any provision of any law, statute, rule or regulation or any order, writ, injunction or decree of any court or federal, state or local Governmental Authority, (ii) will not conflict with or result in any breach of any of the terms, covenants, conditions or provisions of, or constitute a default under, or result in the creation or imposition of (or the obligation to create or impose) any lien upon any of the property or assets of any Loan Party pursuant to the terms of any indenture, mortgage, deed of trust, credit agreement or loan agreement, or any other agreement, contract or instrument, to which any Loan Party is a party or by which they or any of their property or assets is bound or to which they may be subject or (iii) will not violate any provision of the certificate or articles of incorporation or bylaws of the Borrower, Holdings or any other Loan Party.

(i) Governmental Approvals. No order, consent, approval, license, authorization or validation of, or filing, recording or registration with (except for those that have otherwise been obtained or made on or prior to the date of the effectiveness of this Amendment and which remain in full force and effect on such date), or exemption by, any Governmental Authority, is required to authorize, or is required in connection with, (i) the execution, delivery and performance of this Amendment by the Borrower or Holdings or (ii) the legality, validity, binding effect or enforceability of the Credit Agreement, as amended by this Amendment against the Borrower or Holdings.

(j) No Default. No Default or Event of Default (other than such Default or Event of Default expressly waived by Section 3 above) has occurred and is continuing as of the date hereof and no Default or Event of Default will exist immediately after giving effect to this Amendment.

(k) No Impairment. The execution, delivery, performance and effectiveness of this Amendment will not: (a) impair the validity, effectiveness or priority of the Liens granted pursuant to any Loan Document, and such Liens continue unimpaired with the same priority to secure repayment of all of the applicable Obligations, whether heretofore or hereafter incurred, and (b) require that any new filings be made or other action taken to perfect or to maintain the perfection of such Liens.

Section 6. [Reserved].

Section 7. Reaffirmation of Representations. Each of the Borrower, Holdings and the Subsidiary Loan Parties hereby repeats and reaffirms all representations and warranties made to the Administrative Agent and the Lenders in the Credit Agreement and the other Loan Documents on and as of the date hereof (and after giving effect to this Amendment) with the same force and effect as if such representations and warranties were set forth in this Amendment in full (except to the extent that such representations and warranties relate expressly to an earlier date, in which case such representations and warranties were true and correct as of such earlier date).

Section 8. No Further Amendments; Ratification of Liability. Except as expressly amended or waived hereby, the Credit Agreement and each of the other Loan Documents shall remain in full force and effect in accordance with their respective terms, and the Lenders and the Administrative Agent hereby require strict compliance with the terms and conditions of the Credit Agreement and the other Loan Documents in the future. Each of the Borrower, Holdings and the Subsidiary Loan Parties hereby (i) restates, ratifies, confirms and reaffirms its respective liabilities, payment and performance obligations (contingent or otherwise) and each and every term, covenant and condition set forth in the Credit Agreement and the other Loan Documents to which it is a party, all as amended by this Amendment, and the liens and security interests granted, created and perfected thereby and (ii) acknowledges and agrees that this Amendment shall not in any way affect the validity and enforceability of any Loan Document to which it is a party, or reduce, impair or discharge the obligations of the Borrower, Holdings, the Subsidiary Loan Parties or the Collateral granted to the Administrative Agent and/or the Lenders thereunder. The Lenders' agreement to the terms of this Amendment or any other amendment of the Credit Agreement or any other Loan Document shall not be deemed to establish or create a custom or course of dealing between the Borrower, Holdings, the Subsidiary Loan Parties or the Lenders, or any of them. This Amendment shall be deemed to be a "Loan Document" for all purposes under the Credit Agreement. After the effectiveness of this Amendment, each reference to the Credit Agreement in any of the Loan Documents shall be deemed to be a reference to the Credit Agreement as amended by this Amendment.

Section 9. Other Provisions.

(g) This Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed to be an original, and all counterparts, taken together, shall constitute but one and the same document.

(h) The Borrower agrees to reimburse the Administrative Agent on demand for all reasonable costs and expenses (including, without limitation, reasonable and documented legal counsels' fees; provided that such counsel shall be limited to one legal counsel and, to the extent necessary, one local counsel in each relevant jurisdiction for the Administrative Agent and the Lenders, collectively, in each case selected by the Administrative Agent) incurred by the Administrative Agent in negotiating, documenting and consummating this Amendment, the other documents referred to herein, and the transactions contemplated hereby and thereby.

(i) THIS AMENDMENT SHALL BE GOVERNED BY AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH AND BE GOVERNED BY THE LAW (WITHOUT GIVING EFFECT TO THE CONFLICT OF LAW PRINCIPLES THEREOF THAT WOULD RESULT IN THE APPLICATION OF ANY LAW OTHER THAN THE LAW OF THE STATE OF NEW YORK) OF THE STATE OF NEW YORK.

(j) THIS AMENDMENT CONSTITUTES THE ENTIRE CONTRACT AMONG THE PARTIES HERETO RELATING TO THE SUBJECT MATTER HEREOF AND SUPERSEDES ANY AND ALL PREVIOUS DISCUSSIONS, CORRESPONDENCE, AGREEMENTS AND OTHER UNDERSTANDINGS, WHETHER ORAL OR WRITTEN, RELATING TO THE SUBJECT MATTER HEREOF.

(k) Each of the Borrower, Holdings and the Subsidiary Loan Parties agrees to take all further actions and execute such other documents and instruments as the Administrative Agent may from time to time reasonably request to carry out the transactions contemplated by this Amendment, the Loan Documents and all other agreements executed and delivered in connection herewith.

THE LOAN PARTIES DO NOT INTEND THIS AMENDMENT NOR THE TRANSACTIONS CONTEMPLATED HEREBY TO BE, AND THIS AMENDMENT AND THE TRANSACTION CONTEMPLATED HEREBY SHALL NOT BE CONSTRUED TO BE, A NOVATION OF ANY OF THE OBLIGATIONS OWING BY ANY LOAN PARTY UNDER OR IN CONNECTION WITH THE CREDIT AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS TO WHICH A LOAN PARTY IS A PARTY.

[Signature Page Follows]

IN WITNESS WHEREOF, the Borrower, Holdings, the Subsidiary Loan Parties, the Lenders and the Administrative Agent have caused this Second Amendment to Credit Agreement and Waiver to be duly executed by their respective duly authorized officers and representatives as of the day and year first above written.

INTERACTIVE HOLDING CORP.

By: /s/ Josef Mandelbaum  
Name: Josef Mandelbaum  
Title: Director

By: /s/ Yacov Kaufman  
Name: Yacov Kaufman  
Title: Director

INCREDITONE INC.

By: /s/ Josef Mandelbaum  
Name: Josef Mandelbaum  
Title: Chief Executive Officer

By: /s/ Yacov Kaufman  
Name: Yacov Kaufman  
Title: Chief Financial Officer

[Signature Page to Second Amendment to Credit Agreement and Waiver]



INTERCEPT INTERACTIVE INC.

By: /s/ Michael Waxman-Lenz  
Name: Michael Waxman-Lenz  
Title: Chief Financial Officer

UUU HOLDING, LLC

By: /s/ Michael Waxman-Lenz  
Name: Michael Waxman-Lenz  
Title: Chief Financial Officer

SPARK FLOW LLC

By: /s/ Michael Waxman-Lenz  
Name: Michael Waxman-Lenz  
Title: Chief Financial Officer

JAMBO MEDIA LLC

By: /s/ Michael Waxman-Lenz  
Name: Michael Waxman-Lenz  
Title: Chief Financial Officer

WORLD WEB NETWORK HOLDING COMPANY, LLC

By: /s/ Michael Waxman-Lenz  
Name: Michael Waxman-Lenz  
Title: Chief Financial Officer

[Signature Page to Second Amendment to Credit Agreement and Waiver]

SUNTRUST BANK, in its capacities as a Lender and as Administrative Agent

By: /s/ Eric Saxon  
Name: Eric Saxon  
Title: Vice President

[Signature Page to Second Amendment to Credit Agreement and Waiver]

SILICON VALLEY BANK, as a Lender

By: /s/ Michael Moretti  
Name: Michael Moretti  
Title: Managing Director

[Signature Page to Second Amendment to Credit Agreement and Waiver]

CADENCE BANK, as a Lender

By: /s/ Steve Prichett

Name: Steve Prichett

Title: EVP

[End of Signatures]

[Signature Page to Second Amendment to Credit Agreement and Waiver]

### THIRD AMENDMENT TO CREDIT AGREEMENT AND LIMITED WAIVER

THIS THIRD AMENDMENT TO CREDIT AGREEMENT AND LIMITED WAIVER is dated as of October 7, 2016 (this "Amendment"), by and among INTERACTIVE HOLDING CORP., a Delaware corporation (the "Borrower"), INCREDITONE INC., a Delaware corporation ("Holdings"), each of the Guarantors party hereto, each of the financial institutions party hereto as "Lenders" (the "Lenders") and SUNTRUST BANK, in its capacity as Administrative Agent (in such capacity, the "Administrative Agent").

#### WITNESSETH:

WHEREAS, the Borrower, Holdings, certain of the Lenders and the Administrative Agent are parties to that certain Credit Agreement dated as of November 30, 2015, as amended by that certain First Amendment to Credit Agreement dated as of March 4, 2016 and by that certain Second Amendment to Credit Agreement and Waiver dated as of May 8, 2016 (as so amended, the "Credit Agreement");

WHEREAS, the Administrative Agent and the Lenders have been made aware of certain Defaults and Events of Default listed on Schedule 1 attached hereto (the "Specified Defaults") that have occurred and are continuing under the Credit Agreement;

WHEREAS, the Borrower has requested that the Administrative Agent and the Lenders waive the Specified Defaults and amend certain provisions of the Credit Agreement, all as more particularly set forth below;

WHEREAS, subject to the terms and conditions set forth herein, the Administrative Agent and the Lenders are willing to so waive the Specified Defaults and amend the Credit Agreement, all on the terms and conditions contained in this Amendment;

NOW, THEREFORE, for and in consideration of the above premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by the parties hereto, the parties hereto hereby agree as follows:

Section 1. Defined Terms. Capitalized terms which are used herein without definition and which are defined in the Credit Agreement shall have the same meanings herein as in the Credit Agreement.

Section 2. Amendments to Credit Agreement.

(d) The Credit Agreement is hereby amended by deleting the defined terms "Aggregate Revolving Commitment Amount", "Consolidated EBITDA", "Consolidated Fixed Charges", "LC Commitment" and "Swingline Commitment" set forth in Section 1.1 thereof in its entirety and substituting in lieu thereof the following:

"Aggregate Revolving Commitment Amount" shall mean the aggregate principal amount of the Aggregate Revolving Commitments from time to time. On October 7, 2016, the Aggregate Revolving Commitment Amount is \$2,500,000.

"Consolidated EBITDA" shall mean, for the Borrower and its Subsidiaries for any period, an amount equal to the sum of (i) Consolidated Net Income for such period plus (ii) to the extent deducted in determining Consolidated Net Income for such period and to the extent not excluded from Consolidated Net Income pursuant to the definition thereof, and without duplication, (A) Consolidated Interest Expense, (B) income tax expense determined on a consolidated basis in accordance with GAAP, (C) depreciation and amortization determined on a consolidated basis in accordance with GAAP, (D) non-cash charges related to the mark-to-market treatment of obligations under Hedging Transactions, (E) any extraordinary, unusual or non-recurring expenses or losses or restructuring charges or costs, all as determined in accordance with GAAP; provided, that, the amount under this clause (E) shall not exceed (x) \$1,250,000 in the aggregate for any period of four (4) consecutive Fiscal Quarter period through December 31, 2016 and (y) and \$1,000,000 in the aggregate during any Fiscal Year after December 31, 2016; (F) transaction costs and expenses paid in cash in connection with the Related Transactions in an aggregate amount not to exceed \$13,756,501; (G) non-cash charges related to the Great Plains accounting software and related services; provided, that, the amount under this clause (G) shall not exceed \$650,000 in the aggregate; (H) all non-cash foreign currency exchange losses or charges and non-cash expenses deducted as a result of any grant of Capital Stock to employees, officers or directors for such period (but excluding any non-cash loss, charge or expense that is an accrual of or a reserve for a cash expenditure or payment to be made, or anticipated to be made, in a future period); (I) all non-cash expenses allocated by the Parent to the Borrower related to headcount at the Israel development cost center for the benefit of the Borrower in an aggregate amount not to exceed (x) for the Fiscal Year ending December 31, 2016, \$1,750,000, (y) for the Fiscal Year ending December 31, 2017, \$2,500,000 and (z) for the Fiscal Year ending December 31, 2018, 3,750,000; provided that, for purposes of calculating compliance with the financial covenants set forth in Article VI, to the extent that during such period any Borrower Loan Party shall have consummated a Permitted Acquisition or other Acquisition approved in writing by the Required Lenders, or any sale, transfer or other disposition of any Person, business, property or assets, Consolidated EBITDA shall be calculated on a Pro Forma Basis with respect to such Person, business, property or assets so acquired or disposed of. Notwithstanding the foregoing, but subject to any adjustment set forth above with respect to the immediately preceding proviso, Consolidated EBITDA shall be \$10,118,601, \$667,379, \$6,920,800 and \$6,645,632 for the Fiscal Quarters ended December 31, 2014, March 31, 2015, June 30, 2015 and September 30, 2015, respectively.

"Consolidated Fixed Charges" shall mean, for the Borrower and its Subsidiaries for any period, the sum (without duplication) of (i) Consolidated Interest Expense for such period, (ii) scheduled principal payments made on Consolidated Total Debt (including the Term Loan but excluding the Revolving Loans) during such period (as such scheduled principal payments may be reduced as a result of any voluntary or mandatory prepayments of the principal amounts of such Indebtedness for such period or any prior period) and (iii) payments in respect of Capital Lease Obligations of the Borrower and its Subsidiaries during such period. For purposes of calculating the Consolidated Fixed Charges for the four quarters ending December 31, 2015, March 31, 2016, June 30, 2016 and September 30, 2016, scheduled payments of principal of Consolidated Total Debt shall be deemed to be \$625,000 for each such quarter. For purposes of calculating Consolidated Fixed Charges for the December 31, 2015 determination date, Consolidated Interest Expense shall be deemed to be \$3,000,000. For the March 31, 2016 through December 31, 2016 determination dates, Consolidated Interest Expense shall be determined on a cumulative basis for the period beginning January 1, 2016 and ending on the applicable date of determination and annualized. For the determination dates ending March 31, 2017 and thereafter, Consolidated Interest Expense shall be determined on a trailing four quarter basis.

"LC Commitment" shall mean that portion of the Aggregate Revolving Commitments that may be used by the Borrower for the issuance of Letters of Credit in an aggregate face amount not to exceed \$2,500,000.

"Swingline Commitment" shall mean the commitment of the Swingline Lender to make Swingline Loans in an aggregate principal amount at any time outstanding not to exceed \$2,500,000.

(e) The Credit Agreement is hereby further amended by adding the following new defined term "Third Amendment Effective Date" to Section 1.1 thereof in the appropriate alphabetical order:

"Third Amendment Effective Date" shall mean October 7, 2016.

(f) The Credit Agreement is hereby further amended by deleting the first grid immediately under the heading "COMMITMENT AMOUNTS" on Schedule I attached thereto and substituting in lieu thereof the following:

<b>Lender</b>	<b>Revolving Commitment</b>	<b>Term Loan Commitment Amount</b>
SunTrust Bank	\$ 833,333.34	\$ 0
Silicon Valley Bank	\$ 833,333.33	\$ 0
Cadence Bank	\$ 833,333.33	\$ 0
<b>TOTAL</b>	<b>\$ 2,500,000</b>	<b>\$ 0</b>

(g) The Credit Agreement is hereby further amended by deleting clause (c) of Section 5.11 thereof in its entirety and substituting in lieu thereof the following:

"(c) at any time after the occurrence and during the continuance of an Event of Default, at the request of the Administrative Agent or the Required Lenders, Holdings and the Borrower will, and will cause each other Loan Party to, cause all payments constituting proceeds of accounts or other Collateral to be directed into deposit accounts that are subject to Control Account Agreements. The parties hereto agree that account number 1894408945 at Comerica Bank (the "Excluded Account") shall not be required to be subject to a Control Account Agreement pursuant to this Section 5.11. On or prior to May 31, 2017, the Excluded Account shall be closed (such closure, an "Excluded Account Event"). Notwithstanding the foregoing, at all times prior to May 31, 2017, the Borrower shall cause any and all cash (except as provided in the proviso in this Section 5.11(c)) at any time held in the Excluded Account to be swept and deposited on a daily basis into a Controlled Account with a Permitted Third Party Bank which is subject to a Control Account Agreement; provided, however, that the Borrower may maintain a balance of \$2000 at all times in the Excluded Account to pay wiring and other banking fees to Comerica Bank."

(h) The Credit Agreement is hereby further amended by deleting Section 6.1 thereof (Total Leverage Ratio) in its entirety and substituting in lieu thereof the following:

**"Section 6.1.** Total Leverage Ratio. The Borrower will not permit the Total Leverage Ratio, as of the last day of each Fiscal Quarter specified below, to exceed the ratio set forth below opposite such corresponding Fiscal Quarter:

<u>Fiscal Quarter</u>	<u>Total Leverage Ratio</u>
Each Fiscal Quarter ending on or prior to March 31, 2016	2.50:1.00
Fiscal Quarter ending June 30, 2016	2.50:1.00
Fiscal Quarter ending September 30, 2016	2.75:1.00
Fiscal Quarter ending December 31, 2016	2.95:1.00
Fiscal Quarter ending March 31, 2017	2.95:1.00
Fiscal Quarter ending June 30, 2017	2.75:1.00
Fiscal Quarter ending September 30, 2017	2.50:1.00
Fiscal Quarter ending December 31, 2017	2.50:1.00
Fiscal Quarter ending March 31, 2018	2.25:1.00
Fiscal Quarter ending June 30, 2018	2.00:1.00
Fiscal Quarter ending September 30, 2018	1.75:1.00
Fiscal Quarter ending December 31, 2018 and each Fiscal Quarter thereafter"	1.75:1.00



(i) The Credit Agreement is hereby further amended by deleting Section 6.2 thereof (Fixed Charge Coverage Ratio) in its entirety and substituting in lieu thereof the following:

**"Section 6.2.** Fixed Charge Coverage Ratio. The Borrower will not permit the Fixed Charge Coverage Leverage Ratio, as of the last day of each Fiscal Quarter specified below, to be less than the ratio set forth below opposite such corresponding Fiscal Quarter:

<u>Fiscal Quarter</u>	<u>Fixed Charge Coverage Ratio</u>
Each Fiscal Quarter ending on or prior to March 31, 2016	2.00:1.00
Fiscal Quarter ending June 30, 2016	2.00:1.00
Fiscal Quarter ending September 30, 2016	1.50:1.00
Fiscal Quarter ending December 31, 2016	1.50:1.00
Fiscal Quarter ending March 31, 2017	1.50:1.00
Fiscal Quarter ending June 30, 2017	1.50:1.00
Fiscal Quarter ending September 30, 2017	1.55:1.00
Fiscal Quarter ending December 31, 2017	1.60:1.00
Fiscal Quarter ending March 31, 2018	1.60:1.00
Fiscal Quarter ending June 30, 2018	1.75:1.00
Fiscal Quarter ending September 30, 2018	1.75:1.00
Fiscal Quarter ending December 31, 2018 and each Fiscal Quarter thereafter"	2.00:1.00

(j) The Credit Agreement is hereby further amended by deleting Section 7.4(d) thereof in its entirety and substituting in lieu thereof the following:

(d) Investments made by the Borrower in or to any Subsidiary of the Borrower and by any Subsidiary of the Borrower to the Borrower or in or to another Subsidiary of the Borrower; provided that the aggregate amount of Investments by the Borrower Loan Parties in or to, and Guarantees by the Borrower Loan Parties of Indebtedness of, any Subsidiary of the Borrower that is not a Subsidiary Loan Party shall not exceed \$2,000,000 in the aggregate at any time outstanding (the "Investment Cap"); provided further that Investments made prior to the Third Amendment Effective Date by the Borrower Loan Parties in or to, and Guarantees by the Borrower Loan Parties of Indebtedness of, any Subsidiary of the Borrower that is not a Subsidiary Loan Party, and that are described on Schedule 7.4(a) (which Schedule shall include the outstanding amount of all such Investments set forth on such Schedule as of the Third Amendment Effective Date) shall be excluded for purposes of determining compliance with this clause (d) as it relates to the Investment Cap.

(k) The Credit Agreement is hereby further amended by adding "5.11(c)" immediately after the reference therein to "5.9" in Section 8.1(d) thereof.

(l) The Credit Agreement is hereby further amended by deleting Section 8.1(h) thereof in its entirety and substituting in lieu thereof the following:

"(h) Holdings or any of its Subsidiaries (other than Foreign Subsidiaries that are Immaterial Subsidiaries liquidated and dissolved in accordance with Section 7.3(a)(iv)) shall (i) commence a voluntary case or other proceeding or file any petition seeking liquidation, reorganization or other relief under any federal, state or foreign bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a custodian, trustee, receiver, liquidator or other similar official of it or any substantial part of its property, (ii) consent to the institution of, or fail to contest in a timely and appropriate manner, any proceeding or petition described in subsection (i) of this Section, (iii) apply for or consent to the appointment of a custodian, trustee, receiver, liquidator or other similar official for Holdings or any such Subsidiary or for a substantial part of its assets, (iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding, (v) make a general assignment for the benefit of creditors, or (vi) take any action for the purpose of effecting any of the foregoing; or"

(m) The Credit Agreement is hereby further amended by adding Schedule 7.4(a) attached hereto.

### Section 3. Waiver and Acknowledgment.

(a) Subject to the satisfaction of the conditions set forth in Section 4 below, in reliance on the representations and warranties set forth in Sections 5 and 7 below, and subject to the limitations set forth in Section 8 below, the Lenders hereby waive the Specified Defaults. The Borrower acknowledges and agrees that the waiver contained in this Section 3 shall not waive or amend (or be deemed to be or constitute an amendment to or waiver of) any other covenant, term or provision in the Credit Agreement or hinder, restrict or otherwise modify the rights and remedies of the Lenders and the Administrative Agent following the occurrence of any other present or future Default or Event of Default under the Credit Agreement or any other Loan Document. The waiver of each Specified Default set forth above is solely with respect to the period(s) corresponding to such Specified Default prior to the date hereof.

(b) Notwithstanding anything to the contrary contained in the Credit Agreement (as amended by this Amendment), the Administrative Agent and the Required Lenders acknowledge and agree that (i) they have received notice that U.U.U.I. Undertone Israel Ltd., a private limited liability company organized under the laws of Israel ("U.U.U.I."), has been designated by the Borrower as an Immaterial Subsidiary, (ii) the liquidation and dissolution of U.U.U.I. is not materially disadvantageous to the Lenders and (iii) the proposed conversion of intercompany loans in the aggregate amount of approximately \$12,000,000 made by Intercept Interactive Inc. to each of World Web Network Ltd. and World Web Network GmbH to equity will not be a Default and, if such conversion has occurred prior to the effectiveness of this Amendment, is not a Default, under the Credit Agreement (as amended by this Amendment), including but not limited to Section 7.4(d) thereof; provided, that, such acknowledgment and agreement are conditioned upon there being no adverse effect on the Lenders as a result of such conversion (other than the fact that Intercept Interactive Inc. would no longer hold an intercompany receivable in the amount of approximately \$12,000,000).

Section 4. Conditions Precedent to Effectiveness. The effectiveness of this Amendment is subject to the truth and accuracy of the warranties and representations set forth in Sections 5 and 7 below and receipt by the Administrative Agent of each of the following, each of which shall be in form and substance satisfactory to Administrative Agent:

(a) This Amendment, duly executed and delivered by the Borrower, Holdings, the Subsidiary Loan Parties, the Required Lenders and the Administrative Agent;

(b) A certificate of the Borrower dated as of the date hereof signed by a Responsible Officer of the Borrower certifying that, immediately before and after giving effect to this Amendment (i) the representations and warranties contained in Article IV of the Credit Agreement and the other Loan Documents are true and correct on and as of the date hereof, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they shall have been true and correct as of such earlier date; (ii) since December 31, 2015, there has been no event, development or circumstance, either individually or in the aggregate, that has had or could reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect; and (iii) no Default or Event of Default (other than such Default or Event of Default expressly waived by Section 3 above) has occurred and is continuing as of the date hereof and no Default or Event of Default will exist after giving effect to the amendments contemplated by this Amendment;

(c) A certified copy of resolutions adopted by the Board of Directors of the Borrower authorizing and approving the transactions contemplated by this Amendment;

(d) Evidence that the Borrower shall have received an indirect cash equity contribution from the Parent immediately prior to the effectiveness of this Amendment in the amount of \$4,000,000 and payment by the Borrower in an amount equal to \$2,000,000 in immediately available funds to be applied as a prepayment to the outstanding principal amount of the Term Loans in accordance with Section 6 of this Amendment;

(e) A Reaffirmation of Obligations Under Loan Documents (the "Reaffirmation") dated as of the date hereof duly executed by each Loan Party and the Parent, in the form of Exhibit I attached hereto;

(f) The payment of all fees and other amounts due and payable on or prior to the effective date of this Amendment, including reimbursement or payment of all out-of-pocket expenses (including reasonable fees, charges and disbursements of counsel to the Administrative Agent in connection with the preparation, negotiation, execution and delivery of this Amendment and the other documents and agreements executed and delivered in connection herewith) required to be reimbursed or paid by the Borrower and Holdings hereunder; and

(g) Such other documents as the Administrative Agent may reasonably request.

Section 5. Representations. Each of the Borrower and Holdings represents and warrants to the Administrative Agent and the Lenders that:

(l) Power and Authority. Each of the Borrower and the other Loan Parties have the power and authority to execute, deliver and perform the terms and provisions of this Amendment and the Credit Agreement, as amended by this Amendment, and have taken all necessary corporate action to duly authorize the execution, delivery and performance of this Amendment. Each of this Amendment and the Credit Agreement, as amended by this Amendment, constitutes the legal, valid and binding obligation of the Borrower and Holdings enforceable in accordance with its terms, except to the extent that the enforceability thereof may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws generally affecting creditors' rights and by equitable principles.

(m) No Violation. The execution, delivery and performance by the Borrower and the other Loan Parties of this Amendment, and compliance by them with the terms and provisions of the Credit Agreement, as amended by this Amendment: (i) will not contravene any provision of any law, statute, rule or regulation or any order, writ, injunction or decree of any court or federal, state or local Governmental Authority, (ii) will not conflict with or result in any breach of any of the terms, covenants, conditions or provisions of, or constitute a default under, or result in the creation or imposition of (or the obligation to create or impose) any lien upon any of the property or assets of any Loan Party pursuant to the terms of any indenture, mortgage, deed of trust, credit agreement or loan agreement, or any other agreement, contract or instrument, to which any Loan Party is a party or by which they or any of their property or assets is bound or to which they may be subject or (iii) will not violate any provision of the certificate or articles of incorporation or bylaws of the Borrower, Holdings or any other Loan Party.

(n) Governmental Approvals. No order, consent, approval, license, authorization or validation of, or filing, recording or registration with (except for those that have otherwise been obtained or made on or prior to the date of the effectiveness of this Amendment and which remain in full force and effect on such date), or exemption by, any Governmental Authority, is required to authorize, or is required in connection with, (i) the execution, delivery and performance of this Amendment by the Borrower or Holdings or (ii) the legality, validity, binding effect or enforceability of the Credit Agreement, as amended by this Amendment against the Borrower or Holdings.

(o) No Default. No Default or Event of Default (other than such Default or Event of Default expressly waived by Section 3 above) has occurred and is continuing as of the date hereof and no Default or Event of Default will exist immediately after giving effect to this Amendment.

(p) No Impairment. The execution, delivery, performance and effectiveness of this Amendment will not: (a) impair the validity, effectiveness or priority of the Liens granted pursuant to any Loan Document, and such Liens continue unimpaired with the same priority to secure repayment of all of the applicable Obligations, whether heretofore or hereafter incurred, and (b) require that any new filings be made or other action taken to perfect or to maintain the perfection of such Liens.

Section 6. Common Equity Capital Contribution/Prepayment of Term Loans/Agreement regarding EBITDA Addback.

(a) The parties hereto acknowledge and agree that (i) the prepayment made by the Borrower in the amount of \$2,000,000 on September 29, 2016 was irrevocable and was applied as a prepayment to the Term Loans on such date to the principal installments of the Term Loans in inverse order of maturity (notwithstanding anything to the contrary in the Credit Agreement) and (ii) the prepayment made by the Borrower in the amount of \$2,000,000 (described in Section 4(d) of this Amendment) shall be irrevocable and applied as a prepayment to the Term Loans on the date hereof to the principal installments of the Term Loans in inverse order of maturity (notwithstanding anything to the contrary in the Credit Agreement). Such prepayment described in clause (ii) immediately above shall be made *pro rata* to the Lenders based on their Pro Rata Shares of the Term Loans. The Administrative Agent and the Lenders waive any prior notice requirements under the Credit Agreement in respect of such prepayment.

(b) Each of Holdings and the Borrower acknowledge and agree that the \$2,000,000 used to make the prepayment described in clause (a)(ii) immediately above (together with the additional \$2,000,000 cash equity contribution that was received from the Parent at the same time) was received as a common equity capital contribution from the Parent to Holdings, which in turn was used by Holdings to make a common equity capital contribution into the Borrower, and such contributions do not qualify as, and will not be included as, an "Excluded Equity Contribution" or a "Specified Equity Contribution" under and as defined in the Credit Agreement.

(c) The Loan Parties acknowledge and agree that (i) the expenses described in clause (I) of the definition of "Consolidated EBITDA" shall not be paid, repaid or reimbursed by any Loan Party to any other Person, whether in cash or otherwise, and (ii) the Loan Parties will not, and will not allow or permit any of their Subsidiaries to, set off against any obligation or liability owing to such Loan Party, whether directly or indirectly, on account of, or in respect of, any of the expenses described in clause (I) of the definition of "Consolidated EBITDA".

Section 7. Reaffirmation of Representations. Each of the Borrower, Holdings and the Subsidiary Loan Parties hereby repeats and reaffirms all representations and warranties made to the Administrative Agent and the Lenders in the Credit Agreement and the other Loan Documents on and as of the date hereof (and after giving effect to this Amendment) with the same force and effect as if such representations and warranties were set forth in this Amendment in full (except to the extent that such representations and warranties relate expressly to an earlier date, in which case such representations and warranties were true and correct as of such earlier date).

Section 8. No Further Amendments; Ratification of Liability. Except as expressly amended or waived hereby, the Credit Agreement and each of the other Loan Documents shall remain in full force and effect in accordance with their respective terms, and the Lenders and the Administrative Agent hereby require strict compliance with the terms and conditions of the Credit Agreement and the other Loan Documents in the future. Each of the Borrower, Holdings and the Subsidiary Loan Parties hereby (i) restates, ratifies, confirms and reaffirms its respective liabilities, payment and performance obligations (contingent or otherwise) and each and every term, covenant and condition set forth in the Credit Agreement and the other Loan Documents to which it is a party, all as amended by this Amendment, and the liens and security interests granted, created and perfected thereby and (ii) acknowledges and agrees that this Amendment shall not in any way affect the validity and enforceability of any Loan Document to which it is a party, or reduce, impair or discharge the obligations of the Borrower, Holdings, the Subsidiary Loan Parties or the Collateral granted to the Administrative Agent and/or the Lenders thereunder. The Lenders' agreement to the terms of this Amendment or any other amendment of the Credit Agreement or any other Loan Document shall not be deemed to establish or create a custom or course of dealing between the Borrower, Holdings, the Subsidiary Loan Parties or the Lenders, or any of them. This Amendment shall be deemed to be a "Loan Document" for all purposes under the Credit Agreement. After the effectiveness of this Amendment, each reference to the Credit Agreement in any of the Loan Documents shall be deemed to be a reference to the Credit Agreement as amended by this Amendment.

Section 9. Other Provisions.

(l) This Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed to be an original, and all counterparts, taken together, shall constitute but one and the same document.

(m) The Borrower agrees to reimburse the Administrative Agent on demand for all reasonable costs and expenses (including, without limitation, reasonable and documented legal counsels' fees; provided that such counsel shall be limited to one legal counsel and, to the extent necessary, one local counsel in each relevant jurisdiction for the Administrative Agent and the Lenders, collectively, in each case selected by the Administrative Agent) incurred by the Administrative Agent in negotiating, documenting and consummating this Amendment, the other documents referred to herein, and the transactions contemplated hereby and thereby.

(n) THIS AMENDMENT SHALL BE GOVERNED BY AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH AND BE GOVERNED BY THE LAW (WITHOUT GIVING EFFECT TO THE CONFLICT OF LAW PRINCIPLES THEREOF THAT WOULD RESULT IN THE APPLICATION OF ANY LAW OTHER THAN THE LAW OF THE STATE OF NEW YORK) OF THE STATE OF NEW YORK.

(o) THIS AMENDMENT CONSTITUTES THE ENTIRE CONTRACT AMONG THE PARTIES HERETO RELATING TO THE SUBJECT MATTER HEREOF AND SUPERSEDES ANY AND ALL PREVIOUS DISCUSSIONS, CORRESPONDENCE, AGREEMENTS AND OTHER UNDERSTANDINGS, WHETHER ORAL OR WRITTEN, RELATING TO THE SUBJECT MATTER HEREOF.

(p) Each of the Borrower, Holdings and the Subsidiary Loan Parties agrees to take all further actions and execute such other documents and instruments as the Administrative Agent may from time to time reasonably request to carry out the transactions contemplated by this Amendment, the Loan Documents and all other agreements executed and delivered in connection herewith.

THE LOAN PARTIES DO NOT INTEND THIS AMENDMENT NOR THE TRANSACTIONS CONTEMPLATED HEREBY TO BE, AND THIS AMENDMENT AND THE TRANSACTION CONTEMPLATED HEREBY SHALL NOT BE CONSTRUED TO BE, A NOVATION OF ANY OF THE OBLIGATIONS OWING BY ANY LOAN PARTY UNDER OR IN CONNECTION WITH THE CREDIT AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS TO WHICH A LOAN PARTY IS A PARTY.

[Signature Page Follows]

IN WITNESS WHEREOF, the Borrower, Holdings, the Subsidiary Loan Parties, the Lenders and the Administrative Agent have caused this Third Amendment to Credit Agreement and Waiver to be duly executed by their respective duly authorized officers and representatives as of the day and year first above written.

INTERACTIVE HOLDING CORP.

By: /s/ Yacov Kaufman  
Name: Yacov Kaufman  
Title: Director

By: /s/ Josef Mandelbaum  
Name: Josef Mandelbaum  
Title: Director

INCREDITONE INC.

By: /s/ Yacov Kaufman  
Name: Yacov Kaufman  
Title: Chief Financial Officer

By: /s/ Josef Mandelbaum  
Name: Josef Mandelbaum  
Title: Chief Executive Officer

[Signature Page to Third Amendment Credit Agreement and Limited Waiver]

INTERCEPT INTERACTIVE INC.

By: /s/ Michael Waxman-Lenz  
Name: Michael Waxman-Lenz  
Title: Chief Financial Officer

UUU HOLDING, LLC

By: /s/ Michael Waxman-Lenz  
Name: Michael Waxman-Lenz  
Title: Chief Financial Officer

SPARK FLOW LLC

By: /s/ Michael Waxman-Lenz  
Name: Michael Waxman-Lenz  
Title: Chief Financial Officer

JAMBO MEDIA LLC

By: /s/ Michael Waxman-Lenz  
Name: Michael Waxman-Lenz  
Title: Chief Financial Officer

WORLD WEB NETWORK HOLDING COMPANY, LLC

By: /s/ Michael Waxman-Lenz  
Name: Michael Waxman-Lenz  
Title: Chief Financial Officer

[Signature Page to Third Amendment to Credit Agreement and Limited Waiver]



SUNTRUST BANK, in its capacities as a Lender and as Administrative Agent

By: /s/ Kevin Curtis

Name: Kevin Curtis

Title: Director

[Signature Page to Third Amendment to Credit Agreement and Limited Waiver]

SILICON VALLEY BANK, as a Lender

By: /s/ Michael Moretti

Name: Michael Moretti

Title: MD

[Signature Page to Third Amendment to Credit Agreement and Limited Waiver]

CADENCE BANK, as a Lender

By: /s/ Steve Prichett

Name: Steve Prichett

Title: EVP

[End of Signatures]

[Signature Page to Third Amendment to Credit Agreement and Limited Waiver]

**FOURTH AMENDMENT TO CREDIT AGREEMENT AND LIMITED WAIVER**

THIS FOURTH AMENDMENT TO CREDIT AGREEMENT AND LIMITED WAIVER is dated as of March 6, 2018 (this “Amendment”), by and among INTERACTIVE HOLDING CORP., a Delaware corporation (the “Borrower”), INCREDITONE INC., a Delaware corporation (“Holdings”), each of the financial institutions party hereto as “Lenders” (the “Lenders”) and SUNTRUST BANK, in its capacity as Administrative Agent (in such capacity, the “Administrative Agent”).

WITNESSETH:

WHEREAS, the Borrower, Holdings, certain of the Lenders and the Administrative Agent are parties to that certain Credit Agreement dated as of November 30, 2015, as amended by that certain First Amendment to Credit Agreement dated as of March 4, 2016, as further amended by that certain Second Amendment to Credit Agreement and Waiver dated as of May 8, 2016 and as further amended by that certain Third Amendment to Credit Agreement and Limited Waiver dated as of October 7, 2016 (as so amended, the “Credit Agreement”);

WHEREAS, the Administrative Agent and the Lenders have been made aware of certain Defaults and/or Events of Default listed on Schedule A attached hereto (the “Specified Defaults”) that have occurred and are continuing under the Credit Agreement;

WHEREAS, the Borrower has requested that the Administrative Agent and the Lenders waive the Specified Defaults and amend certain provisions of the Credit Agreement, all as more particularly set forth below;

WHEREAS, subject to the terms and conditions set forth herein, the Administrative Agent and the Lenders are willing to so waive the Specified Defaults and amend the Credit Agreement, all on the terms and conditions contained in this Amendment;

NOW, THEREFORE, for and in consideration of the above premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by the parties hereto, the parties hereto hereby agree as follows:

Section 1. Defined Terms. Capitalized terms which are used herein without definition and which are defined in the Credit Agreement shall have the same meanings herein as in the Credit Agreement.

Section 2. Amendments to Credit Agreement.

(a) The Credit Agreement is hereby amended by deleting the defined terms “Aggregate Revolving Commitment Amount”, “LC Commitment” and “Swingline Commitment” set forth in Section 1.1 thereof in its entirety and substituting in lieu thereof the following:

“Aggregate Revolving Commitment Amount” shall mean the aggregate principal amount of the Aggregate Revolving Commitments from time to time. On March 6, 2018, the Aggregate Revolving Commitment Amount is \$0.

“LC Commitment” shall mean that portion of the Aggregate Revolving Commitments that may be used by the Borrower for the issuance of Letters of Credit in an aggregate face amount not to exceed \$0.

“Swingline Commitment” shall mean the commitment of the Swingline Lender to make Swingline Loans in an aggregate principal amount at any time outstanding not to exceed \$0.

(b) The Credit Agreement is hereby further amended by adding the following new defined term “Designated Term Loan Prepayment” to Section 1.1 thereof in the appropriate alphabetical order:

“Designated Term Loan Prepayment” shall have the meaning set forth in Section 2.11(b).

(c) The Credit Agreement is hereby further amended by deleting the table set forth in Section 2.9(b) thereof in its entirety and substituting in lieu thereof the following:

<b>Installment Date</b>	<b>Principal Amount</b>
March 31, 2016	\$625,000
June 30, 2016	\$625,000
September 30, 2016	\$625,000
December 31, 2016	\$625,000
March 31, 2017	\$937,500
June 30, 2017	\$937,500
September 30, 2017	\$937,500
December 31, 2017	\$937,500
March 31, 2018	\$1,074,412.66
June 30, 2018	\$1,074,412.66
September 30, 2018	\$1,074,412.66
December 31, 2018	\$1,074,412.66
March 31, 2019	\$1,074,412.66
June 30, 2019	\$1,074,412.66
September 30, 2019	\$1,074,412.66
Maturity Date	All Term Loans outstanding

(d) The Credit Agreement is hereby further amended by adding “(a)” immediately before the first sentence of Section 2.11 and adding the following Section 2.11(b) immediately following Section 2.11(a) as follows:

(b) Notwithstanding anything to the contrary contained in Section 2.11(a), the Borrower shall have the right to make prepayments of Term Loans in accordance with the terms of this clause (b) (each a “Designated Term Loan Prepayment”), by giving written notice (or telephonic notice promptly confirmed in writing) to the Administrative Agent no later than three (3) Business Days prior to the date of such prepayment (or such shorter period as the Administrative Agent may agree) and designating such prepayment as a Designated Term Loan Prepayment in such notice to be applied in accordance with this Section 2.11(b) and whether such Designated Term Loan Prepayment is the “first” or “second” Designated Term Loan Prepayment. Each such notice shall be irrevocable and shall specify the proposed date of such prepayment. Upon receipt of any such notice, the Administrative Agent shall promptly notify each affected Lender of the contents thereof and of such Lender’s Pro Rata Share of any such prepayment. If such notice is given, the aggregate amount specified in such notice shall be due and payable on the date designated in such notice, together with accrued interest to such date on the amount so prepaid in accordance with Section 2.13(d); provided that if a Eurodollar Borrowing is prepaid on a date other than the last day of an Interest Period applicable thereto, the Borrower shall also pay all amounts required pursuant to Section 2.19. In order to qualify as a “Designated Term Loan Prepayment”, such prepayment must comply with each of the following limitations and requirements: (i) there shall be no more than two (2) Designated Term Loan Prepayments during the term of this Agreement, (ii) each Designated Term Loan Prepayment shall be in an amount equal to \$2,000,000 and (iii) each Designated Term Loan Prepayment shall be applied to the principal balance of the Term Loans in inverse order of maturity and made pro rata to the Lenders based on their Pro Rata Shares of the Term Loans. For the avoidance of doubt, in respect of each Fiscal Quarter, the Borrower shall maintain the financial ratio tests set forth in Sections 6.1 and 6.2 as in effect on the last day of such Fiscal Quarter notwithstanding any Designated Term Loan Prepayment made following the end of such Fiscal Quarter. Any change to such financial ratio tests triggered by the Borrower making a Designated Term Loan Prepayment shall not apply to any Fiscal Quarter ending prior to the date that such Designated Term Loan Prepayment is made but only apply to those Fiscal Quarters ending on or after the date on which such Designated Term Loan Prepayment is made. For the avoidance of doubt, if the Borrower makes both Designated Term Loan Prepayments permitted by this Section 2.11(b) on the same day in a single payment, the Borrower shall be deemed to receive the benefit of the third paragraphs of Sections 6.1 and 6.2 hereof on and after such date.

(e) The Credit Agreement is hereby further amended by deleting Section 6.1 thereof in its entirety and substituting in lieu thereof the following:

**“Section 6.1.** Total Leverage Ratio. Until the receipt by the Administrative Agent of a Designated Term Loan Prepayment in accordance with Section 2.11(b) hereof, the Borrower will not permit the Total Leverage Ratio, as of the last day of each Fiscal Quarter specified below, to exceed the ratio set forth below opposite such corresponding Fiscal Quarter:

<u>Fiscal Quarter</u>	<u>Total Leverage Ratio</u>
Each Fiscal Quarter ending on or prior to March 31, 2016	2.50:1.00
Fiscal Quarter ending June 30, 2016	2.50:1.00
Fiscal Quarter ending September 30, 2016	2.75:1.00
Fiscal Quarter ending December 31, 2016	2.95:1.00
Fiscal Quarter ending March 31, 2017	2.95:1.00
Fiscal Quarter ending June 30, 2017	2.75:1.00
Fiscal Quarter ending September 30, 2017	2.50:1.00
Fiscal Quarter ending December 31, 2017	2.50:1.00
Fiscal Quarter ending March 31, 2018	2.65:1.00
Fiscal Quarter ending June 30, 2018	2.40:1.00
Fiscal Quarter ending September 30, 2018	2.35:1.00
Fiscal Quarter ending December 31, 2018 and each Fiscal Quarter thereafter	1.75:1.00

Notwithstanding the foregoing, commencing on the date a Designated Term Loan Prepayment is received by the Administrative Agent (but prior to the date a second Designated Term Loan Prepayment is received by the Administrative Agent), the Borrower will not permit the Total Leverage Ratio, as of the last day of each Fiscal Quarter specified below, to exceed the ratio set forth below opposite such corresponding Fiscal Quarter:

Fiscal Quarter ending March 31, 2018	2.75:1.00
Fiscal Quarter ending June 30, 2018	2.55:1.00
Fiscal Quarter ending September 30, 2018	2.50:1.00
Fiscal Quarter ending December 31, 2018	2.00:1.00
Fiscal Quarter ending March 31, 2019 and each Fiscal Quarter thereafter	1.75:1.00

Notwithstanding the foregoing, commencing on the date a second Designated Term Loan Prepayment is received by the Administrative Agent, the Borrower will not permit the Total Leverage Ratio, as of the last day of each Fiscal Quarter specified below, to exceed the ratio set forth below opposite such corresponding Fiscal Quarter:

Fiscal Quarter ending March 31, 2018	2.75:1.00
Fiscal Quarter ending June 30, 2018	2.70:1.00
Fiscal Quarter ending September 30, 2018	2.70:1.00
Fiscal Quarter ending December 31, 2018	2.25:1.00
Fiscal Quarter ending March 31, 2019	2.00:1.00
Fiscal Quarter ending June 30, 2019 and each Fiscal Quarter thereafter	1.75:1.00

(f) The Credit Agreement is hereby further amended by deleting Section 6.2 thereof in its entirety and substituting in lieu thereof the following:

**“Section 6.2.** Fixed Charge Coverage Ratio. Until the receipt by the Administrative Agent of a Designated Term Loan Prepayment in accordance with Section 2.11(b) hereof, the Borrower will not permit the Fixed Charge Coverage Leverage Ratio, as of the last day of each Fiscal Quarter specified below, to be less than the ratio set forth below opposite such corresponding Fiscal Quarter:

<u>Fiscal Quarter</u>	<u>Fixed Charge Coverage Ratio</u>
Each Fiscal Quarter ending on or prior to March 31, 2016	2.00:1.00
Fiscal Quarter ending June 30, 2016	2.00:1.00
Fiscal Quarter ending September 30, 2016	1.50:1.00
Fiscal Quarter ending December 31, 2016	1.50:1.00
Fiscal Quarter ending March 31, 2017	1.50:1.00
Fiscal Quarter ending June 30, 2017	1.50:1.00
Fiscal Quarter ending September 30, 2017	1.55:1.00
Fiscal Quarter ending December 31, 2017	1.60:1.00
Fiscal Quarter ending March 31, 2018	1.20:1.00
Fiscal Quarter ending June 30, 2018	1.45:1.00
Fiscal Quarter ending September 30, 2018	1.45:1.00
Fiscal Quarter ending December 31, 2018	1.70:1.00
Fiscal Quarter ending March 31, 2019	1.70:1.00
Fiscal Quarter ending June 30, 2019 and each Fiscal Quarter thereafter	2.00:1.00



Notwithstanding the foregoing, commencing on the date a Designated Term Loan Prepayment is received by the Administrative Agent (but prior to the date a second Designated Term Loan Prepayment is received by the Administrative Agent), the Borrower will not permit the Fixed Charge Coverage Leverage Ratio, as of the last day of each Fiscal Quarter specified below, to be less than the ratio set forth below opposite such corresponding Fiscal Quarter:

Fiscal Quarter ending March 31, 2018	1.15:1.00
Fiscal Quarter ending June 30, 2018	1.40:1.00
Fiscal Quarter ending September 30, 2018	1.40:1.00
Fiscal Quarter ending December 31, 2018	1.60:1.00
Fiscal Quarter ending March 31, 2019	1.60:1.00
Fiscal Quarter ending June 30, 2019	1.95:1.00
Fiscal Quarter ending September 30, 2019 and each Fiscal Quarter thereafter	2.00:1.00

Notwithstanding the foregoing, commencing on the date a second Designated Term Loan Prepayment is received by the Administrative Agent, the Borrower will not permit the Fixed Charge Coverage Leverage Ratio, as of the last day of each Fiscal Quarter specified below, to be less than the ratio set forth below opposite such corresponding Fiscal Quarter:

Fiscal Quarter ending March 31, 2018	1.10:1.00
Fiscal Quarter ending June 30, 2018	1.30:1.00
Fiscal Quarter ending September 30, 2018	1.30:1.00
Fiscal Quarter ending December 31, 2018	1.50:1.00
Fiscal Quarter ending March 31, 2019	1.50:1.00
Fiscal Quarter ending June 30, 2019	1.85:1.00
Fiscal Quarter ending September 30, 2019 and each Fiscal Quarter thereafter"	2.00:1.00



(h) The Credit Agreement is hereby further amended by deleting Schedule I thereto in its entirety and substituting in lieu thereof Schedule I attached hereto.

Section 3. Waiver and Acknowledgment. Subject to the satisfaction of the conditions set forth in Section 4 below, in reliance on the representations and warranties set forth in Sections 5 and 7 below, and subject to the limitations set forth in Section 8 below, the Lenders hereby waive the Specified Defaults. The Borrower acknowledges and agrees that the waiver contained in this Section 3 shall not waive or amend (or be deemed to be or constitute an amendment to or waiver of) any other covenant, term or provision in the Credit Agreement or hinder, restrict or otherwise modify the rights and remedies of the Lenders and the Administrative Agent following the occurrence of any other present or future Default or Event of Default under the Credit Agreement or any other Loan Document. The waiver of each Specified Default set forth above is solely with respect to the period(s) corresponding to such Specified Default prior to the date hereof.

Section 4. Conditions Precedent to Effectiveness. The effectiveness of this Amendment is subject to the truth and accuracy of the warranties and representations set forth in Sections 5 and 7 below and receipt by the Administrative Agent of each of the following, each of which shall be in form and substance satisfactory to Administrative Agent:

(a) This Amendment, duly executed and delivered by the Borrower, Holdings, the Lenders and the Administrative Agent;

(b) A certificate of the Borrower dated as of the date hereof signed by a Responsible Officer of the Borrower certifying that, immediately before and after giving effect to this Amendment (i) the representations and warranties contained in Article IV of the Credit Agreement and the other Loan Documents are true and correct on and as of the date hereof, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they shall have been true and correct as of such earlier date; (ii) since December 31, 2016, there has been no event, development or circumstance, either individually or in the aggregate, that has had or could reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect; and (iii) no Default or Event of Default (other than such Default or Event of Default expressly waived by Section 3 above) has occurred and is continuing as of the date hereof and no Default or Event of Default will exist after giving effect to the amendments contemplated by this Amendment;

(c) A certified copy of resolutions adopted by the Board of Directors of the Borrower authorizing and approving the transactions contemplated by this Amendment;

(d) Evidence that the Borrower shall have received an indirect cash equity contribution from the Parent immediately prior to the effectiveness of this Amendment in the amount of \$8,000,000 and payment by the Borrower in an amount equal to \$8,000,000 in immediately available funds to be applied as a prepayment to the outstanding principal amount of the Term Loans in accordance with Section 6 of this Amendment;

(e) A Reaffirmation of Obligations Under Loan Documents (the "Reaffirmation") dated as of the date hereof duly executed by each Loan Party and the Parent, in the form of Exhibit I attached hereto;

(f) The payment of all fees and other amounts due and payable on or prior to the effective date of this Amendment, including reimbursement or payment of all out-of-pocket expenses (including the fees described in Section 9(b) hereof as well as reasonable fees, charges and disbursements of counsel to the Administrative Agent in connection with the preparation, negotiation, execution and delivery of this Amendment and the other documents and agreements executed and delivered in connection herewith) required to be reimbursed or paid by the Borrower and Holdings hereunder;

(g) Delivery of the financial statements and corresponding executed Compliance Certificate required by Sections 5.1(b) and 5.1(d) of the Credit Agreement in respect of the Fiscal Quarter ending December 31, 2017; and

(g) Such other documents as the Administrative Agent may reasonably request.

Section 5. Representations. Each of the Borrower and Holdings represents and warrants to the Administrative Agent and the Lenders that:

(a) Power and Authority. Each of the Borrower and the other Loan Parties have the power and authority to execute, deliver and perform the terms and provisions of this Amendment and the Credit Agreement, as amended by this Amendment, and have taken all necessary corporate action to duly authorize the execution, delivery and performance of this Amendment. Each of this Amendment and the Credit Agreement, as amended by this Amendment, constitutes the legal, valid and binding obligation of the Borrower and Holdings enforceable in accordance with its terms, except to the extent that the enforceability thereof may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws generally affecting creditors' rights and by equitable principles.

(b) No Violation. The execution, delivery and performance by the Borrower and the other Loan Parties of this Amendment, and compliance by them with the terms and provisions of the Credit Agreement, as amended by this Amendment: (i) will not contravene any provision of any law, statute, rule or regulation or any order, writ, injunction or decree of any court or federal, state or local Governmental Authority, (ii) will not conflict with or result in any breach of any of the terms, covenants, conditions or provisions of, or constitute a default under, or result in the creation or imposition of (or the obligation to create or impose) any lien upon any of the property or assets of any Loan Party pursuant to the terms of any indenture, mortgage, deed of trust, credit agreement or loan agreement, or any other agreement, contract or instrument, to which any Loan Party is a party or by which they or any of their property or assets is bound or to which they may be subject or (iii) will not violate any provision of the certificate or articles of incorporation or bylaws of the Borrower, Holdings or any other Loan Party.

(c) Governmental Approvals. No order, consent, approval, license, authorization or validation of, or filing, recording or registration with (except for those that have otherwise been obtained or made on or prior to the date of the effectiveness of this Amendment and which remain in full force and effect on such date), or exemption by, any Governmental Authority, is required to authorize, or is required in connection with, (i) the execution, delivery and performance of this Amendment by the Borrower or Holdings or (ii) the legality, validity, binding effect or enforceability of the Credit Agreement, as amended by this Amendment against the Borrower or Holdings.

(d) No Default. No Default or Event of Default (other than such Default or Event of Default expressly waived by Section 3 above) has occurred and is continuing as of the date hereof and no Default or Event of Default will exist immediately after giving effect to this Amendment.

(e) No Impairment. The execution, delivery, performance and effectiveness of this Amendment will not: (a) impair the validity, effectiveness or priority of the Liens granted pursuant to any Loan Document, and such Liens continue unimpaired with the same priority to secure repayment of all of the applicable Obligations, whether heretofore or hereafter incurred, and (b) require that any new filings be made or other action taken to perfect or to maintain the perfection of such Liens.

Section 6. Common Equity Capital Contribution/Prepayment of Term Loans/Agreements and Consents.

(a) The parties hereto acknowledge and agree that the prepayment made by the Borrower in the amount of \$8,000,000 (described in Section 4(d) of this Amendment) shall be irrevocable and applied as a prepayment to the Term Loans on the date hereof to the principal installments of the Term Loans in inverse order of maturity (notwithstanding anything to the contrary in the Credit Agreement). Such prepayment described in the sentence immediately above shall be made *pro rata* to the Lenders based on their Pro Rata Shares of the Term Loans. The Administrative Agent and the Lenders waive any prior notice requirements under the Credit Agreement in respect of such prepayment.

(b) Each of Holdings and the Borrower acknowledge and agree that the \$8,000,000 used to make the prepayment described in clause (a) immediately above was received as a common equity capital contribution from the Parent to Holdings, which in turn was used by Holdings to make a common equity capital contribution into the Borrower, and such contributions do not qualify as, and will not be included as, an "Excluded Equity Contribution" or a "Specified Equity Contribution" under and as defined in the Credit Agreement.

(c) Each Loan Party hereby acknowledges and agrees that, as of the date hereof and after giving effect to the prepayment described in Section 4(d) of this Amendment, the aggregate principal amount of all outstanding Term Loans equals \$24,345,301.24.

Section 7. Reaffirmation of Representations. Each of the Borrower, Holdings and the Subsidiary Loan Parties hereby repeats and reaffirms all representations and warranties made to the Administrative Agent and the Lenders in the Credit Agreement and the other Loan Documents on and as of the date hereof (and after giving effect to this Amendment) with the same force and effect as if such representations and warranties were set forth in this Amendment in full (except to the extent that such representations and warranties relate expressly to an earlier date, in which case such representations and warranties were true and correct as of such earlier date).

Section 8. No Further Amendments; Ratification of Liability. Except as expressly amended or waived hereby, the Credit Agreement and each of the other Loan Documents shall remain in full force and effect in accordance with their respective terms, and the Lenders and the Administrative Agent hereby require strict compliance with the terms and conditions of the Credit Agreement and the other Loan Documents in the future. Each of the Borrower, Holdings and the Subsidiary Loan Parties hereby (i) restates, ratifies, confirms and reaffirms its respective liabilities, payment and performance obligations (contingent or otherwise) and each and every term, covenant and condition set forth in the Credit Agreement and the other Loan Documents to which it is a party, all as amended by this Amendment, and the liens and security interests granted, created and perfected thereby and (ii) acknowledges and agrees that this Amendment shall not in any way affect the validity and enforceability of any Loan Document to which it is a party, or reduce, impair or discharge the obligations of the Borrower, Holdings, the Subsidiary Loan Parties or the Collateral granted to the Administrative Agent and/or the Lenders thereunder. The Lenders' agreement to the terms of this Amendment or any other amendment of the Credit Agreement or any other Loan Document shall not be deemed to establish or create a custom or course of dealing between the Borrower, Holdings, the Subsidiary Loan Parties or the Lenders, or any of them. This Amendment shall be deemed to be a "Loan Document" for all purposes under the Credit Agreement. After the effectiveness of this Amendment, each reference to the Credit Agreement in any of the Loan Documents shall be deemed to be a reference to the Credit Agreement as amended by this Amendment. The amendments contained herein shall be deemed to have prospective application only.

Section 9. Other Provisions.

(a) This Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed to be an original, and all counterparts, taken together, shall constitute but one and the same document.

(b) The Borrower agrees to reimburse the Administrative Agent on demand for all reasonable costs and expenses (including, without limitation, reasonable and documented legal counsels' fees; provided that such counsel shall be limited to one legal counsel and, to the extent necessary, one local counsel in each relevant jurisdiction for the Administrative Agent and the Lenders, collectively, in each case selected by the Administrative Agent) incurred by the Administrative Agent in negotiating, documenting and consummating this Amendment, the other documents referred to herein, and the transactions contemplated hereby and thereby. The Borrower agrees to pay (x) a consent fee to each of the Lenders that delivers an executed signature page to this Amendment in an amount equal to 0.30% multiplied by the outstanding principal balance of the Term Loan held by such Lender immediately after giving effect to the payment described in Section 4(d) hereof and (y) such other fees as are contained in a separate fee letter among the Borrower, Holdings and the Administrative Agent or its affiliates.

(c) THIS AMENDMENT SHALL BE GOVERNED BY AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH AND BE GOVERNED BY THE LAW (WITHOUT GIVING EFFECT TO THE CONFLICT OF LAW PRINCIPLES THEREOF THAT WOULD RESULT IN THE APPLICATION OF ANY LAW OTHER THAN THE LAW OF THE STATE OF NEW YORK) OF THE STATE OF NEW YORK.

(d) THIS AMENDMENT CONSTITUTES THE ENTIRE CONTRACT AMONG THE PARTIES HERETO RELATING TO THE SUBJECT MATTER HEREOF AND SUPERSEDES ANY AND ALL PREVIOUS DISCUSSIONS, CORRESPONDENCE, AGREEMENTS AND OTHER UNDERSTANDINGS, WHETHER ORAL OR WRITTEN, RELATING TO THE SUBJECT MATTER HEREOF.

(e) Each of the Borrower, Holdings and the Subsidiary Loan Parties agrees to take all further actions and execute such other documents and instruments as the Administrative Agent may from time to time reasonably request to carry out the transactions contemplated by this Amendment, the Loan Documents and all other agreements executed and delivered in connection herewith.

THE LOAN PARTIES DO NOT INTEND THIS AMENDMENT NOR THE TRANSACTIONS CONTEMPLATED HEREBY TO BE, AND THIS AMENDMENT AND THE TRANSACTION CONTEMPLATED HEREBY SHALL NOT BE CONSTRUED TO BE, A NOVATION OF ANY OF THE OBLIGATIONS OWING BY ANY LOAN PARTY UNDER OR IN CONNECTION WITH THE CREDIT AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS TO WHICH A LOAN PARTY IS A PARTY.

[Signature Page Follows]



IN WITNESS WHEREOF, the Borrower, Holdings, the Subsidiary Loan Parties, the Lenders and the Administrative Agent have caused this Fourth Amendment to Credit Agreement and Waiver to be duly executed by their respective duly authorized officers and representatives as of the day and year first above written.

INTERACTIVE HOLDING CORP.

By: /s/ Doron Gerstel  
Name: Doron Gerstel  
Title: Chief Executive Officer

INCREDITONE INC.

By: /s/ Doron Gerstel  
Name: Doron Gerstel  
Title: Chief Executive Officer

[Signature Page to Fourth Amendment to Credit Agreement and Limited Waiver]

SUNTRUST BANK, in its capacities as a Lender and as Administrative Agent

By: /s/ Cynthia Burton

Name: Cynthia Burton

Title: Director

[Signature Page to Fourth Amendment to Credit Agreement and Limited Waiver]

SILICON VALLEY BANK, as a Lender

By: /s/ Claudia Candles  
Name: Claudia Candles  
Title: Director

[Signature Page to Fourth Amendment to Credit Agreement and Limited Waiver]

CADENCE BANK, as a Lender

By: /s/ Steve Prichett

Name: Steve Prichett

Title: EVP

[End of Signatures]

Material indicated with a “[\*\*\*]” has been redacted pursuant to a request for Confidential Treatment under the Freedom of Information Act. Such material has been filed separately with the Securities and Exchange Commission.

**SEARCH DISTRIBUTION AGREEMENT**

THIS SEARCH DISTRIBUTION AGREEMENT (“**Agreement**”) is made effective as of January 1, 2018 (“**Effective Date**”) by and between **Microsoft Ireland Operations Limited**, an Irish Corporation (“**Microsoft**”) and **Perion Network Ltd.**, an Israeli corporation (“**Company**”). Company and Microsoft are referred to individually, as a “**Party**” and, together, as the “**Parties.**”

This Agreement consists of the terms and conditions below and these Exhibits:

- Exhibit 1: Microsoft Brand Features; Microsoft Trademark Usage and Microsoft Editorial Guidelines);
- Exhibit 2: (Traffic Quality Requirements);
- Exhibit 3: (Distribution, Third-Party, and Download Guidelines);
- Exhibit 4: (Company Brand Features and Trademark Usage Guidelines)
- Exhibit 5: (Default Search Homepage, Browser Search, Company Toolbar and New Tabs Displays);
- Exhibit 6: (Approved Company Products);
- Exhibit 7: (Pre-Approved Offer Screens);
- Exhibit 8: [\*\*\*\*\*];
- Exhibit 9: [\*\*\*\*\*];

**Addresses and contacts for notices:**

<b>Table 1</b>	
<b>Company</b>	<b>Microsoft</b>
<b>Perion Network Ltd.</b> 26 HaRokmim St. Azrieli Center 1, Building A, 4th Floor Holon 5885849 Israel	<b>Microsoft Ireland Operations Limited</b> The Atrium Building, Block B Carmanhall Road, Sandyford Industrial Estate Dublin 18 Ireland
<b>Jurisdiction of Formation:</b> Israel	<b>Jurisdiction of Formation:</b> Ireland
<b>Address for Notices:</b> Address: 26 HaRokmim St., Azrieli Center 1, Building A, 4th Floor, Holon 5885849, Israel Phone: Email: [*****] Attention: [*****]	<b>Microsoft Ireland Operations Limited</b> Attention: MIOL Contract Operations Specialist The Atrium Building, Block B Carmanhall Road, Sandyford Industrial Estate, Dublin 18, Ireland Email: [*****]
<b>Copy of notice must also be sent to:</b> Attention: Perion Legal Department Address: 26 HaRokmim St., Azrieli Center 1, Building A, 4th Floor, Holon 5885849, Israel Phone: [*****] Email: [*****]	<b>Copy of notice must also be sent to:</b> Attention: Legal and Corporate Affairs (re Bing Distribution Contracts) Address: Microsoft Corporation, One Microsoft Way, Redmond, WA 98052 USA Fax: [*****]
<b>Term:</b>	3 years
<b>NDA dated:</b>	[*****]

**Agreed and accepted:**

<b>Perion Network Ltd.</b>	<b>Microsoft Ireland Operations Limited</b>
Signature: /s/ Doron Gerstel, /s/ Ophir Yakovian	Signature: /s/ Alessandro Loche
Name: Doron Gerstel Ophir Yakovian	Name: Alessandro Loche
Title: CEO CEO	Title: Channel Executive Manager
Date: October 25, 2017	Date: October 25, 2017

**Section 1. PURPOSE.**

This Agreement sets forth the terms under which Company may distribute Microsoft's Bing Search Services.

**Section 2. DEFINITIONS.**

In addition to terms defined elsewhere in this Agreement, and whether used in the singular or the plural, the following terms will have the following meanings.

**"Ad Revenues"** means all revenues recognized by Microsoft in accordance with GAAP in connection with advertisements returned for Included Searches from Users in the Territory. The calculation of Ad Revenue is subject to Section 5.1.

**"Ad Revenue Deduction"** means [\*\*\*\*\*]

**"Adjusted Revenues"** means, for a given period, the Ad Revenues less the Ad Revenue Deduction for activity during the applicable period.

**"Affiliate"** means any entity that directly or indirectly controls, is controlled by, or is under common control with a party, where "control" means the ownership of, or the power to vote, at least fifty percent (50%) of the voting stock, shares or other equity interests of the entity, or the effective ability to control the management and direction of the entity.

**"API Call"** means a search query request to the Bing Search Services [\*\*\*\*\*].

**"Bing Search Service"** means the standalone internet search service that indexes and searches the world wide web and other data sources that Microsoft may at its discretion choose to index as part of its online search service as it exists as of the Effective Date, including all improvements thereto and any successor or substitute services that are used on the Bing Site.

**"Bing Site"** means www.bing.com and the Bing mobile website www.m.bing.com, any equivalent Bing in-application services, the localized equivalents of each (e.g., www.bing.co.uk or www.bing.fr), all subdomains and any successor sites that replace such sites and subdomains, as well as any equivalent Bing in-application services.

**"Company Brand Features"** means all trademarks, service marks, logos and other distinctive brand features of Company that are used in or relate to its business and are listed on Exhibit 4, as such Exhibit may be updated by Company from time-to-time.

**"Company Network"** means Company, Company's Affiliates and Company Partners.

**"Company Partner"** means a publisher, distribution partner or distribution channel with whom Company has contracted to offer search services and that have been approved by Microsoft pursuant to the terms of this Agreement.

“**Company Toolbars**” means an add-on client software application developed, owned by or licensed to Company and distributed by Company under this Agreement for use by end-users with internet browser technology that provides a navigation bar on the browser general user interface containing internet search functionality, and links to various internet sites and services specified by Company. During the Term and Tail Period, such Company Toolbars distributed under this Agreement may be set with the Bing Search Service as the default internet search provider from all Search Access Points within the Company Toolbars, and in order for Company to be paid under this Agreement, will include Tracking Codes or other tracking codes within such Search Access Points (in addition to setting the Bing Search Service as the default internet search). Exhibit 5 illustrates how the Company Toolbars will appear during the Term and the Tail Period, unless mutually agreed otherwise by the Parties.

“**Company User Data**” means User Data collected by Company in connection with Queries entered in a Search Access Point on any Company-branded Default Search Homepage or New Tab or Company Partner-branded Default Search Homepage or New Tab identified on Exhibit 5, which is owned or operated by Company or Company Partner.

“**Default Browser Search**” means Users setting Company as the default internet search provider in a User’s web browser and set as default search in the User’s browser and actually Redirects to the Bing Search Service upon a query from the default search box or address bar.

“**Default Search Homepage**” means, at Company’s option, (i) webpages hosted and controlled by Company or a Company Partner including a search box or (ii) the Bing Site homepage or successor web page, or a different approved homepage (in which event, Microsoft will recognize and track traffic from Company and each Company Partner for purposes of accounting for Ad Revenue), with such webpages offered to end-users to be the default homepage (which may include being the default homepage in a new browser tab) for such end-users within their browser(s) on the end-users’ device, or may be other such websites with a search box, so long in all instances as the primary purpose of the website is a general internet search page. Upon a User conducting a search, the Default Search Homepages will Redirect to the Bing Search Service, or may be set to the Bing Site, during the Term. Exhibit 5 illustrates, without limitation, examples of how the Default Search Homepages will appear during the Term, unless mutually agreed otherwise by the Parties.

“**Guidelines**” means all of the guidelines specified in Exhibit 1 (“[\*\*\*\*\*] Guidelines”); Exhibit 2 (“[\*\*\*\*\*] Requirements”); Exhibit 3 (“[\*\*\*\*\*] Guidelines”); and any instructions or documentation relating to this Agreement; as any of the foregoing may be updated by Microsoft from time to time.

“**Included Search**” means a Query that includes Tracking Codes specific to Company, from Search Access Points. Queries conducted by a User following an initial search (“**Follow-on Searches**”) is considered Included Search to the extent that Microsoft’s Tracking Codes or other mechanism used by Microsoft allow Microsoft to account for follow-on searches. If Company implements a Tracking Code, Microsoft will use commercially reasonable efforts to track Initial Searches and Follow-on Searches using those Tracking Codes or such other mechanisms and to have such Tracking Codes or other mechanisms persist to track subsequent searches.



“**Microsoft Brand Features**” means all trademarks, service marks, logos and other distinctive brand features of Microsoft that are used in or relate to its business and are listed in Exhibit 1, as such Exhibit may be updated by Microsoft from time-to-time.

“**Microsoft User Data**” means User Data collected by Microsoft.

“**Mobile Device**” means: (a) an iOS or Android mobile telephony device used for any computing, communications or other services; and (b) any other device that Microsoft and Company either agree in writing are Mobile Devices or that both treat as a mobile device for purposes of rendering the user experience.

“**NDA**” means the Non-Disclosure Agreement between the Parties, dated as shown on the cover page.

“**New Tab**” means a new tab in a browser, where the default new tab page includes a Search Access Point, as determined by Company or Company Partner.

“**OEM**” means any company that manufactures computers, tablets or mobile devices.

“**Original Agreements**” means collectively, the agreements between: (a) Microsoft Online, Inc. and Company dated July 29, 2014, as amended; (b) Microsoft Online, Inc. and Company dated December 28, 2012; and (c) Microsoft Online, Inc. and ClientConnect Ltd. dated November 19, 2010, as amended.

“**Paid Listings**” means a listing provided by Microsoft’s Bing ads platform in response to a User query or other active user input in a Search Access Point and related keyword suggestions on the Bing Site in connection with Included Searches, that include hypertext links to web pages, which may result in payment to Microsoft for displaying the listing, regardless of the basis on which Microsoft is paid.

“**Personal Computer**” means a general purpose computer, such as a desktop, notebook, laptop, tablet or netbook that: (a) is not a Mobile Device; and (b) is primarily designed to be used by a single person or small group of persons at one time and to perform a multiplicity of general purpose computing functions at the direction of the user through applications.

“**Platform**” means a Personal Computer or Mobile Device.

“**Products**” means the Default Search Homepages, Default Browser Search, Company Toolbars, New Tabs, other applications or search access points permitted pursuant to [Section 4.4.1](#) below or modified pursuant to [Section 4.3.2](#) below, and the applications, products and services listed in [Exhibit 6](#), as such Exhibit may be updated from time to time in accordance with this Agreement.

“**Query**” means the internet search query resulting from a user actively initiating a single search request [\*\*\*\*\*].

“**Redirect**” means redirection of a User to the Bing Search Service, in accordance with this Agreement, upon a User’s initiation of an Included Search.

“**Revenue Share**” means, the sum for each country of, the product of the applicable Revenue Share Percentage in Table 2 set forth in Section 5.1 and the Adjusted Revenues during the period.

“**Search Access Points**” means all areas including search boxes included within or enabled by any of the Products, where a User can initiate a Query with the Tracking Codes.

“**Serving Cost Rate**” means [\*\*\*\*\*].

“**Tail Period**” means the [\*\*\*\*\*] period that immediately follows the expiration or the termination of this Agreement for any reason except for Company insolvency or breach of the Agreement.

“**Term**” has the meaning given in Table 1.

“**Territory**” means [\*\*\*\*\*].

“**Tracking Codes**” means the unique code, search settings or other instrumentation that Microsoft provides and Company will implement in Search Access Points as contemplated under this Agreement, allowing Microsoft to track and monitor information relating to the Search Access Points and other data.

[\*\*\*\*\*] means [\*\*\*\*\*]

[\*\*\*\*\*] **Requirements**” refers to the requirements set forth in Exhibit 2.

“**User**” means a person who initiates a Query.

“**User Data**” means information provided by or obtained from Users by accessing the Bing Search Service.

[\*\*\*\*\*] means [\*\*\*\*\*]

“**Violation**” has the meaning ascribed to it in Section 4.9(b).

“**Violation Notice**” means any written notice from Microsoft to Company communicating an actual Violation which includes information reasonably sufficient to remediate the behavior or activity giving rise to the Violation.

Other capitalized terms used, but not defined in this Section 2 have the meanings attributed to them elsewhere in this Agreement. All references to “days,” “months,” and “years” are to calendar days, months, and years in the United States of America, unless otherwise expressly stated in this Agreement. A “business day” means any day other than a Friday, Saturday or Sunday or any day on which the Federal Reserve Bank of New York is closed. All monetary amounts are in U.S. dollars. Any reference to Company’s obligations shall also apply to all of Company’s Affiliates. Any notice or termination notice issued by Microsoft to Company shall also apply to Company’s Affiliates whether or not expressly referred to therein.

**Section 3. LICENSE GRANTS.**

Subject to the terms and conditions of this Agreement, the Parties grant to each other the licenses set forth below. All rights not expressly granted are reserved to the licensor.

**3.1. Grant of Licenses to Company.**

- 3.1.1. **Bing Search Service.** Microsoft grants to Company and its Affiliates a limited, nonexclusive, non-transferable (except as provided herein), non-sublicensable, royalty-free license during the Term and Tail Period in the Territory to: (a) reproduce, distribute and implement Tracking Codes for the purposes set out in this Agreement; and (b) enable Redirects from Search Access Points within the Company Network, pursuant to the terms of this Agreement.
- 3.1.2. **Microsoft Brand Features.** Microsoft grants Company and its Affiliates a limited, non-exclusive, nontransferable (except as provided herein), non-sublicensable, royalty-free license during the Term and Tail Period in the Territory to use, reproduce, distribute and display the Microsoft Brand Features solely in connection with the distribution of the Products contemplated and authorized by Microsoft under this Agreement and promotion of the Bing Search Service and Redirect functionality on all Products. Company's uses of the Microsoft Brand Features must comply with Microsoft's Trademark Usage Guidelines set forth in Exhibit 1 and Company will not use any Microsoft Brand Feature in a way that is misleading or deceptive. The form of all usage of Microsoft Brand Features by or under the authority of Company will be subject to Microsoft's prior approval. Company will not take any action which may suggest or imply that Microsoft has endorsed Company or any product or service thereof, or that there is any connection or relationship between Microsoft and Company, other than as set forth herein. All uses of Microsoft Brand Features, and all goodwill associated therewith, inure solely to the benefit of Microsoft. Notwithstanding anything else to the contrary in this Agreement, [\*\*\*\*\*]. For avoidance of doubt, the foregoing includes the right for Company Partners to reproduce, distribute and display the Microsoft Brand Features in connection with their distribution of the Products and enablement of the Bing Search Service as contemplated in this Agreement.

- 3.2. **Grant of License to Microsoft.** Company grants to Microsoft a limited, non-exclusive, nontransferable, royalty-free license to use, reproduce, distribute and display the Company Brand Features solely in connection with the marketing and promotion of the Bing Search Service, as contemplated in this Agreement. In its use of any Company Brand Feature, Microsoft agrees to adhere to Company's brand treatment guidelines for use of Company's Brand Features, as such guidelines may be provided by Company to Microsoft from time to time. Microsoft will not take any action which may suggest or imply that Company has endorsed Microsoft or any product or service thereof, or that there is any connection or relationship between Microsoft and Company, other than as set forth herein. All uses of Company Brand Features, and all goodwill associated therewith, inure solely to the benefit of Company.

**Section 4. RIGHTS AND RESPONSIBILITIES FOR DISTRIBUTION.**

**4.1. Provision of Services.** During the Term and the Tail Period, and in accordance with the provisions of this Agreement, Microsoft will provide the Bing Search Service to Users in response to all Redirects from traffic sources that comply with the Agreement. Notwithstanding the foregoing, if [\*\*\*\*\*] fails to [\*\*\*\*\*] due to [\*\*\*\*\*], such failure will [\*\*\*\*\*].

**4.2.** [\*\*\*\*\*].In response to [\*\*\*\*\*],[\*\*\*\*\*] will provide [\*\*\*\*\*] with substantially [\*\*\*\*\*] as [\*\*\*\*\*] on [\*\*\*\*\*] unless otherwise agreed by both Parties in writing. [\*\*\*\*\*] will use [\*\*\*\*\*] to enforce [\*\*\*\*\*] consistently with [\*\*\*\*\*] with [\*\*\*\*\*]; provided, however, that [\*\*\*\*\*] will not be considered [\*\*\*\*\*].

**4.3. Review and Approvals.**

**4.3.1. New Products.**

- (a) Company may request approval of new Products by submitting such request and information needed to review such request, to Microsoft, in writing. Microsoft may ask for additional information from Company as reasonably needed to complete its review of Company's request. [\*\*\*\*\*] Microsoft may in its sole discretion, approve or reject such requests.
- (b) Company acknowledges that [\*\*\*\*\*] will [\*\*\*\*\*] pursuant to Section 4.3.1(a) above [\*\*\*\*\*]. Notwithstanding the foregoing, if [\*\*\*\*\*] exceeds [\*\*\*\*\*], Microsoft will [\*\*\*\*\*] to [\*\*\*\*\*].

**4.3.2. Variations.**

- (a) Company must request and receive Microsoft's approval before implementing any addition, update or variation (collectively, "Variation") to [\*\*\*\*\*] that affects the functionality of Bing Search Service or user experience of Bing Search Service, [\*\*\*\*\*]
- (b) Subject to Section 4.3.2(c) below, Company must notify Microsoft of any Variation to Products [\*\*\*\*\*] of implementing such Variation.
- (c) Company may implement Variations [\*\*\*\*\*].
- (d) [\*\*\*\*\*]. If Company does not comply, the Parties [\*\*\*\*\*]. If [\*\*\*\*\*] are unable to [\*\*\*\*\*] within [\*\*\*\*\*]: (1) if [\*\*\*\*\*] is [\*\*\*\*\*],[\*\*\*\*\*] may [\*\*\*\*\*] (2) if [\*\*\*\*\*] is the source of [\*\*\*\*\*],[\*\*\*\*\*] must remove [\*\*\*\*\*], the respective [\*\*\*\*\*] in the respective [\*\*\*\*\*], or the [\*\*\*\*\*] of the respective [\*\*\*\*\*]. Any failure to [\*\*\*\*\*] described in this Section 4.3.2 (d) is a [\*\*\*\*\*] for purposes of the [\*\*\*\*\*] described in Section[\*\*\*\*\*].

#### 4.4. Methods of Distribution.

- 4.4.1. General. Beginning no later than [\*\*\*\*\*], and subject to Section 4.3, during [\*\*\*\*\*] and in the Territory, Company may: (i) Redirect users from all approved Search Access Points in its Products to the Bing Search Service; and (ii) enable Default Browser Search. Company may distribute each of the foregoing independently of each other to each respective user, in Company's discretion and through the distribution activities and entry points set forth on; provided, that [\*\*\*\*\*]. Company will only engage in such distribution during the Term and in the Territory in accordance with Section 4.9. [\*\*\*\*\*]
- 4.4.2. Approved Products. [\*\*\*\*\*]. Microsoft reserves the right to review any expressly approved or deemed approved Products at any time during the Term. If Microsoft determines that a previously (expressly or deemed) approved Product does not comply with the Guidelines, [\*\*\*\*\*]. If Company fails to remedy [\*\*\*\*\*], then Microsoft reserves the right, [\*\*\*\*\*].
- 4.4.3. [\*\*\*\*\*]. [\*\*\*\*\*] may [\*\*\*\*\*] or otherwise [\*\*\*\*\*] the [\*\*\*\*\*] with [\*\*\*\*\*] for any other [\*\*\*\*\*], provided that each [\*\*\*\*\*] also itself complies with [\*\*\*\*\*] herein. Upon request, [\*\*\*\*\*] will provide [\*\*\*\*\*] with reasonable detail of the [\*\*\*\*\*] with each [\*\*\*\*\*]. In the event of [\*\*\*\*\*] between the terms contained with the body of this Agreement and [\*\*\*\*\*], including those set forth in [\*\*\*\*\*], the terms of [\*\*\*\*\*] will control.
- 4.4.4. Manner of Distribution. Company may present the offer for the Products to end-users. When Company displays an offer to end-users as a part of the implementation screen display, it will [\*\*\*\*\*]. In the event that: (i) [\*\*\*\*\*] is prohibited by law; (ii) [\*\*\*\*\*] is consistent with [\*\*\*\*\*] in a given [\*\*\*\*\*]; or (iii) adverse action is undertaken or is reasonably expected to be undertaken against [\*\*\*\*\*] by an organization known for [\*\*\*\*\*], [\*\*\*\*\*] may notify [\*\*\*\*\*] in writing that the implementation must be [\*\*\*\*\*] and [\*\*\*\*\*] will implement [\*\*\*\*\*] within [\*\*\*\*\*] of such notice. If [\*\*\*\*\*] notice is given under subsection (i) of this Section 4.4.4, the [\*\*\*\*\*] shall only apply where [\*\*\*\*\*]. If [\*\*\*\*\*] notice is given under subsection (ii) of this Section 4.4.4, then if [\*\*\*\*\*] is to apply in [\*\*\*\*\*], the [\*\*\*\*\*] shall no longer apply [\*\*\*\*\*] after [\*\*\*\*\*] has been fully implemented by [\*\*\*\*\*].

**4.5. Tracking Codes or [\*\*\*\*\*].**

4.5.1. Placement of Tracking Codes. Prior to the Effective Date, Microsoft will have provided Company with [\*\*\*\*\*] (the “Initial Tracking Codes”) under the Original Agreements. Company shall be entitled to require Microsoft to provide for [\*\*\*\*\*] Tracking Codes (the “Additional Tracking Codes”). Company understands that such Additional Tracking Codes will be provided by Microsoft within [\*\*\*\*\*] from Company’s written request for such Additional Tracking Codes. Company will place Tracking Codes in any Search Access Points, and all such tagged Search Access Points will redirect to the Bing Search Service. Microsoft will pay the applicable compensation to Company, as set forth in Section 5.1, only to the extent that a Tracking Code exists in a Search Access Point. Microsoft will inform Company of any search queries that Microsoft receives without Tracking Codes that it believes originates under this Agreement (when Microsoft becomes aware). The parties will notify each other of any errors or other technical problems with the implementation of Tracking Codes and will use reasonable efforts to remedy such errors or technical problems. [\*\*\*\*\*] Company acknowledges that Microsoft does not represent or warrant that Tracking Codes can be set or retained on all Search Access Points (for example, on all browsers and versions of browsers).

4.5.2. No Disclosure of Tracking Codes [\*\*\*\*\*]. During and after the Term, Company will not disclose or provide any access to the Tracking Codes [\*\*\*\*\*] to a third party unless authorized in writing by Microsoft.

4.5.3. [\*\*\*\*\*].

(a) [\*\*\*\*\*].

(b) [\*\*\*\*\*].

(c) [\*\*\*\*\*].

**4.6. Use of Company User Data.** Company will have the right to [\*\*\*\*\*]. Company undertakes that any Company User Data collected and used in connection therewith will, at all times, comply with the provisions of Section 8.1 below (“User Data; Compliance with Privacy and User Data Laws”). Company will not take any other action to alter Redirects from going directly to the Bing Search Service and Company will not have any such other traffic routed to the Bing Search Service via Company’s servers or intermediary websites or domains. For the avoidance of doubt, Company will not use any mechanisms to track Users (as such) on Microsoft domains or services.

**4.7. Service Support.** Company and Company Partners shall provide customer support to Users relating to the Products. Microsoft shall provide customer support to Users relating solely to the Bing Search Service.

**4.8. Attribution.** Company may include Microsoft Brand Features on all Products during the Term and Tail Period. For Products already installed on Users’ systems as of the Effective Date, the branding will remain the same, unless Microsoft requests modification to such attribution. For all new Products that Company desires to distribute, the Parties will mutually agree on the appearance of the Microsoft Brand Features on such Products before they are distributed or otherwise made available to the public. Company will not use the Microsoft Brand Features in any way that could be fraudulent, deceptive or misleading to a User or otherwise violate the Guidelines.

#### 4.9. Distribution Guidelines.

##### 4.9.1. Compliance.

- (a) Company agrees that, in connection with its rights to offer Redirect functionality to the Bing Search Service under this Agreement, it shall not and neither shall any Company Partner: (i) knowingly infringe on any third party's proprietary rights; or (ii) violate any applicable law, statute, ordinance or regulation, including the laws and regulations governing (A) misleading, false or deceptive advertising, (B) anti-discrimination, (C) unfair competition, (D) fraud, or (E) export control (and, for clarity, [\*\*\*\*\*] will be subject to [\*\*\*\*\*]). Without limiting the foregoing, Company will use commercially reasonable efforts not to distribute a Product that [\*\*\*\*\*]. Where open-source software is incorporated within a product, service or application bundled within or distributed with a Product, Company undertakes to review the license terms applicable to such open source software and respect all applicable use restrictions therein or similar. "Commercially reasonable efforts" as used in the foregoing means that [\*\*\*\*\*].
- (b) Company agrees that, in connection with its distribution of Redirect functionality in connection with this Agreement, [\*\*\*\*\*] will comply with the Guidelines throughout the Term and the Tail Period. Notwithstanding the foregoing, non-compliance of the Guidelines by Company or a Company Partner shall still be subject [\*\*\*\*\*]. Microsoft will use commercially reasonable efforts to provide at least [\*\*\*\*\*].

4.9.2. Compliance with Guidelines. Company will provide a User notice and obtain such User's consent pursuant to Section 4.4.4 above, and in a manner that is not misleading and that complies with applicable laws and applicable Guidelines before changing any user settings with respect to any Search Access Points.

4.9.3. Offer Screen. Except for approved offer screens identified on Exhibit 7, the Parties will work together to develop the offer screens. Company must receive Microsoft's approval in writing for [\*\*\*\*\*]. For the avoidance of doubt, [\*\*\*\*\*].

##### 4.9.4. Traffic Quality Requirements.

- (a) Each Party agrees that, in connection with its Redirect distribution under this Agreement, it shall not violate Traffic Quality Requirements.
- (b) Company will work with Microsoft to manage traffic generated by the Company Network according to Microsoft specifications. Upon notification of the specifications related to Traffic Quality Requirements from Microsoft to Company, the Parties will collaborate in good faith to implement the specifications [\*\*\*\*\*] which will account for any technical work needed for Company and Company Partners to implement the specifications, as communicated in writing by Company to Microsoft. Microsoft reserves the right to update such specifications from time to time. As at the Effective Date, the Parties acknowledge that the measurement parameters, standards, and operational processes [\*\*\*\*\*] and the Parties agree to work in good faith to [\*\*\*\*\*].

- (c) Company will follow any Guidelines provided by Microsoft to manage traffic for individual traffic sources. [\*\*\*\*\*], Company, at Microsoft's discretion, may remove the individual traffic source at issue from its network, [\*\*\*\*\*].
- 4.9.5. Unauthorized or Fraudulent Revenue. In connection with Company's Redirect distribution, Company will not, and will not authorize any third party to, generate invalid [\*\*\*\*\*]. [\*\*\*\*\*], Microsoft will measure invalid click-throughs, and any search, impression, click-through or conversion generated in violation of this paragraph will not be counted for purposes of Company's compensation.
- 4.9.6. Distribution Partners.
- (a) Company may distribute the Products through the Company Partners that make up the Company Network. Company will disclose to Microsoft, [\*\*\*\*\*] during the Term and Tail Period and upon Microsoft's request, all Company Partners that make up the Company Network. Such disclosure will be deemed Company's Confidential Information as that term is defined in the NDA.
- (b) If any Company Partner or related traffic: (i) [\*\*\*\*\*]; (ii) violates law with respect to the Products or their distribution; (iii) is engaged in or derived from fraudulent practices; or (iv) has [\*\*\*\*\*], then Company will ensure that the Company Partner removes the Bing Search Service and Redirect functionality from those Products ([\*\*\*\*\*]) within [\*\*\*\*\*] of receipt of a Violation Notice from Microsoft, which Microsoft will provide to Company using commercially reasonable efforts. [\*\*\*\*\*]. By way of clarification and not limitation, [\*\*\*\*\*].
- (c) In the event that [\*\*\*\*\*]. On 1st January each year during the Term, [\*\*\*\*\*].
- (d) Company, its Affiliates and Company Partners must not sub-syndicate or otherwise distribute Products incorporating the Bing Search Service Redirect functionality through any means to any search distribution companies including [\*\*\*\*\*].
- (e) Company must not directly or indirectly offer the Redirect functionality to [\*\*\*\*\*].
- (f) During the Term and the Tail Period, neither Company nor Microsoft will actively solicit a commercial relationship to provide the Bing Search Service to any suspended partner directly nor shall it expressly permit any third party to do so.
- (g) Company and its Affiliates must not take any action that directs or otherwise moves traffic from any Company or Company Partners [\*\*\*\*\*].



- 4.10. Non-Web Vertical-Only Entry Points.** The use of the Services on Products (or versions thereof) whose default search functionality is to [\*\*\*\*\*] is not permitted under this Agreement. Perion may [\*\*\*\*\*] to this [Section 4.10](#) pursuant to [Section 4.3](#).
- 4.11.** [\*\*\*\*\*].
- 4.11.1. General.
- (a) [\*\*\*\*\*]. Except as otherwise provided in this Agreement, Company will redirect to the Bing Search Service, [\*\*\*\*\*]. Within [\*\*\*\*\*] of the end of each calendar quarter (“**Report Submission Period**”), Company will provide Microsoft with written reports [\*\*\*\*\*] against [\*\*\*\*\*].
- (b) Product and [\*\*\*\*\*]. Products that have been [\*\*\*\*\*] shall not be counted toward the [\*\*\*\*\*].
- 4.11.2. [\*\*\*\*\*].
- (a) [\*\*\*\*\*].
- (b) [\*\*\*\*\*].
- 4.11.3. [\*\*\*\*\*]. If the [\*\*\*\*\*] is removed by Microsoft or Company from [\*\*\*\*\*] arising from non-compliance with this Agreement then [\*\*\*\*\*] through that [\*\*\*\*\*] will not be used to calculate the [\*\*\*\*\*] set forth in [Section](#) [\*\*\*\*\*] (i.e., such [\*\*\*\*\*] may be directed elsewhere and the remainder of the applicable [\*\*\*\*\*] shall be subject to the [\*\*\*\*\*]).
- 4.11.4. Query Assignment. Company will reasonably cooperate with Microsoft, to the extent necessary, to cause query share from the queries submitted to Bing Search Service from Products under this Agreement to be attributed to Microsoft by third party traffic measurement agencies. Without limiting the foregoing, Company will, if requested by Microsoft, sign a letter assigning all query traffic to Microsoft for purposes of tracking online search traffic by comScore, Inc.
- 4.12. Reporting by Microsoft.** During the Term and Tail Period, Microsoft will use commercially reasonable efforts to provide Company with [\*\*\*\*\*] reporting [\*\*\*\*\*], reflecting the most recent data that Microsoft. As of [\*\*\*\*\*], Microsoft has provided Company with the ability to generate up to [\*\*\*\*\*], or such [\*\*\*\*\*] as the Parties may agree, so that [\*\*\*\*\*]. Without limiting the foregoing, Microsoft will use commercially reasonable efforts to provide [\*\*\*\*\*]. However, it being understood that [\*\*\*\*\*] will be based upon [\*\*\*\*\*]. Only [\*\*\*\*\*] shall be used for [\*\*\*\*\*].
- 4.13. Reporting by Company.** To the extent that reporting data, whether complete or partial, is available to Company, within [\*\*\*\*\*] after the end of each calendar quarter, Company will provide a report to Microsoft in a mutually agreeable form and content (for example, [\*\*\*\*\*], as well as other information reasonably requested by Microsoft). Upon Microsoft’s request (such requests only [\*\*\*\*\*]), Company shall provide Microsoft with [\*\*\*\*\*].

4.14. **Cooperation.** Neither Party will unreasonably withhold, delay or condition any approvals or consents under this Agreement.

**Section 5. COMPENSATION**

5.1. **Payment.** During the Term and the Tail Period, Microsoft will pay Company the [\*\*\*\*\*] for each applicable payment period under this Agreement according to [\*\*\*\*\*]. Payment will be made in accordance with the payment terms in Section 5 of this Agreement. If the [\*\*\*\*\*], Microsoft will pay [\*\*\*\*\*]. Except as specifically set forth in this Section 5.1, Microsoft will retain all revenues derived from or in connection with its services.

**Table 2:** [\*\*\*\*\*]

[*****]
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5.2. **Tail Period Payments.** During the Tail Period, Microsoft will continue to pay Company a Revenue Share for traffic generated by Products or Search Access Points that were implemented or distributed prior to the end of the Term, so long as (i) [\*\*\*\*\*], (ii) [\*\*\*\*\*]. Company will not drive new implementation or distribution of Products or Search Access Points under this Schedule during the Tail Period, and Microsoft will not [\*\*\*\*\*]. The Tail Period will [\*\*\*\*\*] if a) [\*\*\*\*\*] or b) [\*\*\*\*\*].

5.3. **Method and Timing of Payments.**

5.3.1. Monthly Reports. Within no later than [\*\*\*\*\*] following the end of each calendar month in which a payment may be owed, Microsoft will make a report available to Company showing the information necessary to calculate amounts payable during such calendar month. If Microsoft [\*\*\*\*\*], any [\*\*\*\*\*]. Information contained in such reports is Confidential Information of each Party.

5.3.2. Invoices and Payments. Microsoft will pay Company no later than [\*\*\*\*\*] after Microsoft makes the report available to Company, according to Microsoft's then-current payment delivery practices, which is, as of the Effective Date, payment via ACH electronic payment to Company's financial institution in accordance with instructions supplied to Microsoft by Company in Microsoft's ACH Electronic Payment Forms. Microsoft may change the payment delivery practice upon giving [\*\*\*\*\*] to Company. If Company fails to supply the information described in Section 4.5.3(b), Microsoft will have no obligation to pay Company for any revenue generated by the publishers or products that are the subject of such request. For any amounts paid and later determined to have been generated in violation of the Agreement, Microsoft may invoice Company or offset against amounts owed to Company in a later billing period. In addition, Microsoft may invoice and Company will pay any negative amount of payment calculation results, or Microsoft may offset such amount against Revenue Share payable in other months, at its discretion.

5.3.3. [\*\*\*\*\*]. Microsoft may, [\*\*\*\*\*], which Microsoft, in its sole reasonable discretion, determines was [\*\*\*\*\*]. Upon its discovery, Microsoft will use commercially reasonable efforts to notify Company of any [\*\*\*\*\*].

#### 5.4. Audit

5.4.1. General. During the Term, Tail Period, [\*\*\*\*\*], [\*\*\*\*\*] at its own expense may hire a mutually agreeable independent accounting firm of international stature (not compensated on a contingency fee basis) to audit [\*\*\*\*\*] under this Agreement [\*\*\*\*\*] solely to the extent relevant to the determination [\*\*\*\*\*] Company under this Agreement for [\*\*\*\*\*]. The auditor shall be under obligations of confidentiality to the auditing party and the auditing party shall remain responsible for any breach of confidentiality by the auditor. Unless [\*\*\*\*\*] as set forth below, [\*\*\*\*\*].

5.4.2. [\*\*\*\*\*]. In addition to Microsoft's rights under Section [\*\*\*\*\*], if [\*\*\*\*\*] under Section [\*\*\*\*\*] determines that [\*\*\*\*\*], Company will [\*\*\*\*\*]. If [\*\*\*\*\*], [\*\*\*\*\*], Company will pay Microsoft for all reasonable costs and expense incurred conducting the audit.

5.4.3. Anti-corruption. For any audits related to any applicable anti-corruption laws, besides the obligations above, will also maintain a system of internal controls to prevent the payment of bribes and provide reasonable assurance that financial statements and reporting are accurate. Company will not have undisclosed or unrecorded accounts for any purpose and false which are, misleading, incomplete, inaccurate or artificial entries in the books and records are prohibited. [\*\*\*\*\*].

#### Section 6. TERMINATION RIGHTS.

6.1. **Termination for Insolvency.** This Agreement may be terminated at any time by a Party immediately upon written notice if the other Party: (i) becomes insolvent; (ii) files a petition in bankruptcy if within sixty (60) days after the commencement of any such proceedings, the proceedings have not been dismissed; or (iii) makes an assignment for the benefit of its creditors.

6.2. **Termination for Cause.** Either Party may terminate this Agreement: (i) with [\*\*\*\*\*] written notice due to the other Party's material breach of this Agreement (a) where such breach is incurable and (b) which, if curable is not cured (or if the breaching Party is not making substantial progress toward curing such breach) within [\*\*\*\*\*] after receiving notice, or (ii) immediately upon written notice to the other Party if the other Party materially breaches its confidentiality obligations in the NDA (being a single event or a series of events which are together a material breach of the NDA).

6.3. **Termination for [\*\*\*\*\*].**

6.3.1. [\*\*\*\*\*].

6.3.2. [\*\*\*\*\*].

**6.4. Termination for [\*\*\*\*\*].**

**6.5. Termination for [\*\*\*\*\*].**

**6.6. Effect of Termination on Tail Period.** In the event of termination by Microsoft pursuant to [Section 6.1](#), [Section 6.2](#), [Section 6.3](#), and [Section 6.5](#), Company shall forfeit the Tail Period described in [Section 5.2](#).

**6.7. Survival.** The following provisions survive any termination or expiration of this Agreement for any reason: [Section 6.7](#), [Section 7](#), [Section 8.2](#), [Section 8.4](#), [Section 9](#), [Section 10](#), [Section 11](#), [Section 12](#) and any other provision specifically stating it applies following the Term. In addition,

[Section 5.3.3](#) will survive any termination or expiration of the Agreement for a period of one (1) year after the termination or expiration of the Term.

**Section 7. OWNERSHIP.**

**7.1. Microsoft Ownership.** Company acknowledges and agrees that as between Company, on the one hand, and Microsoft, on the other hand, Microsoft owns all right, title and interest in the Bing Search Service, the Microsoft Brand Features and Microsoft User Data. Except for the licenses set forth in this Agreement, nothing in the Agreement confers upon Company any license or right, title, or interest in the foregoing.

**7.2. Company Ownership.** Microsoft acknowledges and agrees that as between Microsoft, on the one hand, and Company, on the other hand, Company owns all right, title and interest in the Products, Company Brand Features, Default Search Homepages, New Tabs and Company User Data. Except for the licenses set forth in this Agreement, nothing in this Agreement confers upon Microsoft or the Microsoft Affiliates any licenses or right, title, or interest in the foregoing.

**Section 8. USER DATA; REPRESENTATIONS AND WARRANTIES.**

**8.1. User Data.** Compliance with Privacy and User Data Laws. All Microsoft User Data will be retained and owned solely by Microsoft and its Affiliates, as applicable. All Company User Data will be retained and owned solely by Company. Each Party represents and warrants to the other Party that: (i) all of its collection and use of User Data during or resulting from Users' use of Bing Search Service or Products, Default Search Homepages, Default Browser Search, or New Tabs or any other Search Access Point will comply with all applicable laws and regulations, including federal and state privacy and consumer protection laws of the United States and its territories, and standard legal terms and conditions, attached as part of [Exhibit 1](#) hereto (as may be amended from time to time); (ii) it has, and will at all times maintain, a specific end-user license agreement and privacy policy governing the delivery and use of its assets hereunder; and (iii) it abides, and will at a times abide, by such end-user license agreement and privacy policies. Company will provide Microsoft with a copy of its privacy policies, user terms and conditions, and disclosures made to Users. Each Party will ensure that appropriate disclosures are provided to each User.

- 8.2. Mutual Representations and Warranties.** Each Party represents and warrants to the other Party that during the Term of the Agreement and Tail Period: (a) it has the full corporate right, power and authority to enter into the Agreement and to perform the acts required of it under the Agreement, including, without limitation, the right to grant any and all rights and licenses under the Agreement without violation of the rights of any third party; (b) the execution of the Agreement and performance of its obligations under the Agreement do not and will not violate any other agreement to which it is a party; (c) the Agreement, when executed and delivered, constitutes its legal, valid and binding obligation; and (d) any and all activities it undertakes in connection with the Agreement will be performed in compliance with all applicable laws, rules and regulations.
- 8.3. Intellectual Property Compliance.** Without limiting anything else in this Agreement to the contrary, each Party covenants and agrees to maintain responsible business practices regarding ownership and compliance with applicable intellectual property laws, rules and regulations, and to maintain, to the extent applicable to it, policies for complying with all such laws, rules and regulations (for example, when applicable and without limitation, a policy for compliance with the Digital Millennium Copyright Act, as amended), and to use reasonable efforts to ensure any of its agents comply with the obligations under this [Section 8.4](#).
- 8.4. Disclaimer.** EXCEPT FOR THE EXPRESS WARRANTIES MADE IN THE AGREEMENT, ALL MATERIALS AND DELIVERABLES PROVIDED BY ONE PARTY TO THE OTHER PARTIES HEREUNDER ARE PROVIDED "AS IS." TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, THE PARTIES MAKE NO OTHER WARRANTIES OR CONDITIONS, EXPRESS, IMPLIED, STATUTORY OR OTHERWISE, AND EACH PARTY SPECIFICALLY DISCLAIMS ANY AND ALL IMPLIED WARRANTIES OF FITNESS FOR A PARTICULAR PURPOSE, MERCHANTABILITY, TITLE AND NON-INFRINGEMENT.

**Section 9. INDEMNIFICATION.**

- 9.1. Scope.** [\*\*\*\*\*]. Each Party agrees to indemnify and hold the other Party harmless from and against [\*\*\*\*\*]. The indemnifying Party will solely conduct the defense of any such claim or action and all negotiations for its settlement or compromise; provided, however, that (i) no settlement or compromise will be entered into that admits fault on behalf of the other Party or requires any payment by the other Party without the other Party's prior written consent, and (ii) the other Party has the right to participate, at its own cost and expense (including, without limitation, attorneys' fees), in the defense and any settlement of any such claim or action in order to protect its own interests.
- 9.2. Notice.** [\*\*\*\*\*]'s indemnification obligation under [Section 9](#) is contingent upon [\*\*\*\*\*]: (a) promptly notifying the indemnifying Party in writing of the claim, except that any failure to promptly provide this notice will only relieve the indemnifying Party of its indemnification responsibility under this [Section 9](#) to the extent its defense is materially prejudiced by the delay; (b) granting the indemnifying Party sole control of the defense and any settlement of the claim except as expressly provided under [Section 9](#); and (c) providing the indemnifying Party, at the indemnifying Party's expense, with all assistance, information and authority reasonably required for the defense and any settlement of the claim, but in a manner consistent with the indemnified Party's confidentiality obligations and preservation of attorney/client, work product and other privileges.

**Section 10. LIMITATION OF LIABILITY.**

- 10.1. Lost Profits; Consequential Damages.** EXCEPT AS OTHERWISE PROVIDED IN SECTION 10.2, TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, (I) NO PARTY WILL BE LIABLE FOR [\*\*\*\*\*], OR FOR ANY OTHER INDIRECT, SPECIAL, INCIDENTAL, PUNITIVE OR CONSEQUENTIAL DAMAGES ARISING OUT OF OR IN CONNECTION WITH THE AGREEMENT, HOWEVER CAUSED, AND UNDER WHATEVER CAUSE OF ACTION OR THEORY OF LIABILITY BROUGHT (INCLUDING, WITHOUT LIMITATION, UNDER ANY CONTRACT, NEGLIGENCE OR OTHER TORT THEORY OF LIABILITY) EVEN IF SUCH PARTY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES, AND (II) [\*\*\*\*\*] EXCEED THE GREATER OF (i) [\*\*\*\*\*] OR (ii) [\*\*\*\*\*].
- 10.2. Exceptions.** THE ABOVE EXCLUSIONS AND LIMITATIONS OF LIABILITY WILL NOT APPLY: (i) TO A PARTY'S BREACH OF ITS CONFIDENTIALITY OBLIGATIONS UNDER SECTION 12.4 (NONDISCLOSURE AGREEMENT); (ii) A PARTY'S DAMAGES CAUSED BY THE OTHER PARTY'S FRAUD, WILLFUL MISCONDUCT, OR GROSS NEGLIGENCE IN CONNECTION WITH THE AGREEMENT; (iii) A PARTY'S INDEMNIFICATION OBLIGATION UNDER Section 9 (INDEMNIFICATION); OR (IV) AMOUNTS OWED UNDER SECTION 12.12 (TAX MATTERS).

**Section 11. DISPUTE RESOLUTION [\*\*\*\*\*].**

- 11.1. Dispute Resolution.** Except with respect to (1) a Party's request for equitable or provisional relief or to otherwise protect its intellectual property rights, or Confidential Information provided under this Agreement, no civil action, proceeding as set forth below with respect to any dispute, controversy or claim arising out of, or relating to, or in connection with, this Agreement, or the breach, termination, or validity hereof, including the validity of this dispute resolution provision (each of which dispute, controversy, or claim will be termed a "Dispute") between the Parties may be commenced, nor may a Party terminate any portion of this Agreement for a material breach of a material warranty, representation, covenant or obligation of this Agreement, until the Parties have first attempted in good faith to resolve the Dispute amicably in accordance with this Section 11.1.
- 11.1.1. **Notice of Dispute.** In the event of a Dispute, the Party raising the Dispute shall give written notice to the other Party setting forth the details of the Dispute and any proposed solution or compromise. The Parties shall cooperate in good faith to resolve the Dispute within 30 days of receipt of the notice of Dispute.
- 11.1.2. [\*\*\*\*\*], [\*\*\*\*\*].
- 11.2.** [\*\*\*\*\*], [\*\*\*\*\*].

**Section 12. GENERAL PROVISIONS.**

- 12.1. Notices.** Save for the [\*\*\*\*\*] in [\*\*\*\*\*], which may be delivered by fax or email to Company to the respective parties listed on the cover page of this Agreement (with a simultaneous copy sent by email to [\*\*\*\*\*]), all notices and other communications required or permitted under this Agreement must be in writing and delivered personally, mailed, first class mail, postage prepaid, certified and return receipt requested or via an internationally recognized overnight courier, to the applicable Party at the addresses set forth on the first page to this Agreement, unless, by notice, a Party changes or supplements the addressee and addresses for giving notice. All notices are deemed given: (i) if given personally or by overnight courier, on the date personally delivered; or (ii) if given by first class mail, five days after placed in the mail as specified.
- 12.2. Counterparts.** This Agreement may be executed in two counterparts, both of which taken together constitute a single instrument. Execution and delivery of this Agreement may be evidenced by scanned copies in pdf exchanged via email.
- 12.3. Successors and Assigns.** This Agreement and the performance of any duties hereunder may not be assigned, transferred, delegated (except as set forth below), sold or otherwise disposed of by a Party other than (a) with the prior written consent of the other Party, or (b) [\*\*\*\*\*]. Microsoft may update Exhibit 8 at the end of each quarter. This Agreement will be binding upon and shall inure to the benefit of a Party's permitted successors and assigns. Any assignment not permitted by the Agreement is void. Notwithstanding the foregoing, either Party may delegate its performance to, or exercise its rights through, one or more Affiliates in the Territory; provided that in the event of any such delegation or exercise, each Party will remain liable and fully responsible for its Affiliates' performance of and compliance with such Party's obligations and duties under this Agreement.
- 12.4. Nondisclosure Agreement.** The NDA is incorporated by reference and made a part of this Agreement and governs the Agreement. The Agreement and all discussions under or relating to it are considered "confidential information" under the NDA.
- 12.5. Amendment and Waiver; Entire Agreement.** No amendment to, or waiver of, any provision of the Agreement will be effective unless in writing and signed by both Parties. The waiver by any Party of any breach or default will not constitute a waiver of any different or subsequent breach or default. As of the Effective Date, this Agreement, together with all exhibits, represents the entire agreement between the Parties with respect to the subject matter of this Agreement. As of the Effective Date, this Agreement supersedes all prior agreements and communications of the Parties, oral or written, relating to its subject matter. As of the Effective Date, this Agreement supersedes the Original Agreements. All internet searches conducted prior to the Effective Date (and revenue therefrom) under the Original Agreements will be governed by the Original Agreements, and all Included Searches (and revenue therefrom) as of and after the Effective Date will be governed by this Agreement. For the avoidance of doubt, (i) this Agreement does not supersede or modify the NDA, and (ii) the surviving portions of the Original Agreements will apply with respect thereto.
- 12.6. Export Control.** The Parties will comply in all material respects with all relevant export or import laws and regulations of the United States, or of any foreign government to or from where a Party is shipping, in connection with the import, export or re-export, directly or indirectly, of software in connection with this Agreement.

- 12.7. Severability.** If any provision of the Agreement is held to be invalid, illegal or unenforceable for any reason, such invalidity, illegality or unenforceability will not affect any other provisions of the Agreement, and instead, the Agreement will be construed as if such invalid, illegal or unenforceable provision had never been contained in it.
- 12.8. Publicity.** No Party may make any public announcement or issue any press release about the existence or terms of the Agreement without the other Party's prior written approval, which shall not be unreasonably withheld. It is understood between the Parties that Company desires to issue a press release upon the execution of this Agreement, which will be subject to Microsoft's prior written approval. Any and all publicity relating to the Agreement or any subsequent transactions between the Parties under it must be approved by both Parties in writing and in advance of the release. Microsoft acknowledges that Company is a publicly traded company, and agrees that as a public company, Company may be obliged, as part of certain disclosure rules, to disclose the existence of this Agreement and certain of its general terms and conditions. Company will only disclose information that is absolutely required to be disclosed by law or regulation, will not disclose the Agreement in its entirety, will not disclose any of the Agreement's economic terms, and will give Microsoft prior written notice on any such disclosure.
- 12.9. Independent Contractors.** Each Party is an independent contractor with respect to the other for purposes of the Agreement and its subject matter. Nothing contained in the Agreement creates in any manner whatsoever any partnership, joint venture, employment, agency, fiduciary, or other similar relationship between the Parties.
- 12.10. Sole Responsibility.** Company will remain solely responsible for the operation of the Products, and Microsoft will remain solely responsible for the operation of the Bing Search Service.
- 12.11. Event of Force Majeure.** Neither Party will be in violation of any of the requirements of this Agreement to the extent that its performance is impaired as a result of any delay, failure in performance, or interruption of service, resulting directly or indirectly from acts of God, acts of civil or military authorities, civil disturbances, wars, acts of terrorism, strikes or other labor disputes, fires, transportation contingencies, outages of third party telecommunications networks with whom the non-performing Party does not have a direct contractual relationship, failure of suppliers with whom the non-performing Party does not have a direct contractual relationship, or other similar occurrences which are beyond such Party's reasonable control; provided, however, that any such delay or failure will be remedied by such Party as soon as reasonably possible. Upon the occurrence of an event of force majeure, the Party unable to perform will, if and as soon as possible, provide written notice to the other Party indicating that an event of force majeure occurred and detailing how such event of force majeure impacts the performance of its obligations. Microsoft will maintain during the Term and Tail Period, [\*\*\*\*\*].



**12.12. Tax Matters.**

12.12.1. General. The amounts to be paid by Microsoft to Company do not include any taxes. Microsoft is not liable for any taxes that Company is legally obligated to pay ("Company Taxes") which are incurred or arise in connection with or related to the sale of goods and/or services under this Agreement, and all such taxes shall be the financial responsibility of Company, provided that Microsoft shall pay to Company any sales, use or value added taxes that are owed by Microsoft solely as a result of entering into this Agreement and which are to be collected from Microsoft by Company under applicable law. Microsoft may provide to Company a valid exemption certificate in which case Company shall not collect the taxes covered by such certificate. Company agrees to indemnify, defend and hold Microsoft harmless from Company's Taxes (including sales or use taxes paid by Microsoft to Company) or claims, causes of action, costs (including, without limitation, reasonable attorneys' fees) and any other liabilities of any nature whatsoever related to such Company Taxes.

12.12.2. Withholding Taxes. If taxes are required to be withheld on any amounts otherwise to be paid by Microsoft to Company, Microsoft will deduct such taxes from the amount otherwise owed and pay them to the appropriate taxing authority. Microsoft shall secure and deliver to Company an official receipt for any taxes withheld. Microsoft shall use reasonable efforts to minimize such taxes to the extent permissible under applicable law.

12.12.3. Cooperation on Tax Matters. Microsoft and Company will reasonably cooperate with each other to mitigate, reduce or eliminate any withholding taxes arising in connection with this Agreement, including by using commercially reasonable efforts to obtain any certificate or other document from any governmental authority or any other person as may be necessary to mitigate, reduce or eliminate any such taxes. If Microsoft intends to withhold any withholding taxes, Microsoft will provide prior written notice to Company describing the rationale for such determination. Such notice shall be provided to Company promptly following Microsoft's determination to withhold and sufficiently in advance of any actual withholding (["\*\*\*\*\*"]) to provide Company a reasonable time to contest such determination.

**12.13. Jurisdiction, Venue, and Governing Law.** This Agreement is governed by and interpreted in accordance with the laws of the State of New York, without regard to the conflicts of laws principles thereof. The parties each irrevocably consent to the exclusive jurisdiction and venue of the state or federal courts in the Borough of Manhattan, New York, USA for all disputes arising out of or relating to this Agreement.

[Remainder of page intentionally left blank]

**EXHIBIT 1            MICROSOFT BRAND FEATURES; MICROSOFT TRADEMARK USAGE AND MICROSOFT EDITORIAL GUIDELINES**

The following identifies the location of the Microsoft Brand Features, Microsoft Trademark Usage, Microsoft Editorial Guidelines. Company acknowledges that the terms of the guidelines may change at any time at Microsoft’s sole but reasonable discretion (provided that such changes shall apply consistently to Microsoft and all of its other distribution partners); and, following notice of any such change, Company will, within a reasonable time following such notice and otherwise in accordance with the Agreement, comply with the new guidelines for all Products, whether already distributed or not yet distributed. In the event of any conflict between such guidelines and this Agreement, this Agreement shall control.

**1. The Bing Product Guidelines (incorporating the Microsoft Brand Features):**

<https://advertiseonbing.blob.core.windows.net/blob/bingads/media/library/docs/bing-marketing-guidelines.pdf>

**2. The Microsoft Trademark Usage Guidelines:**

<http://www.microsoft.com/en-us/legal/intellectualproperty/Trademarks/Usage/General.aspx>

**3. Microsoft Editorial Guidelines:**

<http://advertise.bingads.microsoft.com/en-us/editorial-guidelines>

including without limitation the User Safety Privacy and Download Guidelines:

<http://advertise.bingads.microsoft.com/en-us/editorial-privacy-guidelines>

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**EXHIBIT 2 [\*\*\*\*\*] REQUIREMENTS**

In connection with Company's distribution and use of the Bing Search Service under this Agreement Company will, and will ensure that Company Partners, comply with the [\*\*\*\*\*] Requirements, which are incorporated by reference herein, and available to Company at [https://\[\\*\\*\\*\\*\\*\]](https://[*****]) or any successor site as provided to Company by Microsoft.

[Remainder of page intentionally left blank]

**EXHIBIT 3 [\*\*\*\*\*] GUIDELINES**

In connection with Company's distribution and use of the Bing Search Service under this Agreement Company will, and will ensure that Company Partners, comply with the [\*\*\*\*\*] Guidelines, which are incorporated by reference herein, and available to Company at [https://\[\\*\\*\\*\\*\\*\]](https://[*****]) or any successor site as provided to Company by Microsoft.

[Remainder of page intentionally left blank.]

**EXHIBIT 4            COMPANY BRAND FEATURES AND TRADEMARK USAGE GUIDELINES**

The Company's Brand and Trademark Usage Guidelines can be found here:

<https://www.perion.com/media-kit/>

**EXHIBIT 5            DEFAULT SEARCH HOMEPAGE, BROWSER SEARCH, COMPANY TOOLBAR AND NEW TABS DISPLAYS**

Home page and default search pages where search boxes shown below redirects users to Bing.com:

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**EXHIBIT 6**

**APPROVED COMPANY PRODUCTS**

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**EXHIBIT 8**

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**EXHIBIT 9**

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[END OF AGREEMENT]

**INDEMNIFICATION AGREEMENT**

THIS INDEMNIFICATION AGREEMENT (the “**Agreement**”), dated as of [ ], is entered into by and between Perion Network Ltd., an Israeli company (the “**Company**”), and [ ], an Israeli resident (the “**Indemnitee**”).

**WHEREAS**, Indemnitee is an Office Holder (“*Nosse Misra*”), as such term is defined in the Companies Law, 5759–1999 (the “**Companies Law**” and “**Office Holder**” respectively), of the Company;

**WHEREAS**, the Articles of Association of the Company authorize the Company to indemnify and advance expenses to its Office Holders and provide for insurance and exculpation to its Office Holders, and this Agreement is provided to Indemnitee in accordance with applicable law, the Articles of the Association of the Company and all requisite corporate approvals;

**WHEREAS**, the Company has determined that (i) the increased difficulty in attracting and retaining competent persons is detrimental to the best interests of the Company’s shareholders and that the Company should act to assure such persons that there will be increased certainty of such protection in the future, (ii) and it is reasonable, prudent and necessary for the Company contractually to obligate itself to indemnify, and to advance expenses on behalf of, such persons to the fullest extent permitted by applicable law.

**WHEREAS**, the Company acknowledges that Indemnitee is relying on the obligations of the Company set forth in this Agreement in agreeing to serve the Company, which obligations are therefore irrevocable;

**WHEREAS**, in recognition of Indemnitee’s need for substantial protection against loss arising from the Indemnitee’s liability, including costs and expenses incurred by the Indemnitee due to his position as Office Holder, in order to assure Indemnitee’s continued service to the Company in an effective manner and, in part, in order to provide Indemnitee with specific contractual assurance that the indemnification, insurance and exculpation afforded by the Articles of Association will be available to Indemnitee, the Company wishes to undertake in this Agreement for the indemnification of and the advancing of expenses to Indemnitee to the fullest extent permitted by applicable law and as set forth in this Agreement and provide for insurance and exculpation of Indemnitee as set forth in this Agreement.

**NOW, THEREFORE**, the parties hereto agree as follows:

**1. INDEMNIFICATION AND INSURANCE.**

- 1.1. The Company hereby undertakes to indemnify Indemnitee to the fullest extent permitted by applicable law and the Company’s Articles of Association, as each may be amended from time to time, for any liability and expense specified in Sections 1.1.1 through 1.1.4 below, imposed on Indemnitee due to or in connection with an act performed by such Indemnitee, either prior to or after the date hereof, in Indemnitee’s capacity as an Office Holder, including, without limitation, as a director, officer, employee, agent or fiduciary of the Company, any subsidiary thereof or any other corporation, collaboration, partnership, joint venture, trust or other enterprise, in which Indemnitee serves at any time at the request of the Company (the “**Corporate Capacity**”). The term “act performed in Indemnitee’s capacity as an Office Holder” shall include, without limitation, any act, omission and failure to act and any other circumstances relating to or arising from Indemnitee’s service in a Corporate Capacity. Notwithstanding the foregoing, in the event that the Office Holder is the beneficiary of an indemnification undertaking provided by a subsidiary of the Company or any other entity (other than a Secondary Indemnitor (as defined below), if applicable, with respect to his Corporate Capacity with such subsidiary or entity, then the indemnification obligations of the Company hereunder with respect to such Corporate Capacity shall only apply to the extent that the indemnification by such subsidiary or other entity does not actually fully cover the indemnifiable liabilities and expenses relating thereto. The following shall be hereinafter referred to as “**Indemnifiable Events**”:
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- 1.1.1. Financial liability imposed on Indemnitee in favor of any person pursuant to a judgment, including a judgment rendered in the context of a settlement or an arbitrator's award approved by a court. For purposes of Section 1 of this Agreement, the term "**person**" shall include, without limitation, a natural person, firm, partnership, joint venture, trust, company, corporation, limited liability entity, unincorporated organization, estate, government, municipality, or any political, governmental, regulatory or similar agency or body;
  - 1.1.2. Reasonable Expenses (as defined below) incurred by or charged to Indemnitee as a result of an investigation or any proceeding instituted against him by an authority that is authorized to conduct an investigation or proceeding to the full extent permitted by the applicable law.
  - 1.1.3. Reasonable Expenses incurred by or charged to Indemnitee by a court, in a proceeding instituted against him by the Company or on its behalf or by another person, or in a criminal charge from which he was acquitted or in which he was convicted of an offence that does not require proof of *mens rea*;
  - 1.1.4. A financial obligation imposed upon Indemnitee and reasonable Expenses expended Indemnitee as a result of an administrative proceeding instituted against Indemnitee. Without derogating from the generality of the foregoing, such obligation or Expense will include a payment which Indemnitee is obligated to make to an injured party as set forth in Section 52(54)(a)(1)(a) of the Israeli Securities Law, 1968 – 5728 (the "**Securities Law**") and Expenses that Indemnitee incurred in connection with a proceeding under Chapters H'3, H'4 or I'1 of the Securities Law; and
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1.1.5. Any other event, occurrence or circumstances in respect of which the Company may lawfully indemnify an Office Holder of the Company.

For the purpose of this Agreement, “**Expenses**” shall include, without limitation, attorneys’ fees and all other costs, expenses and obligations paid or incurred by Indemnitee in connection with investigating, defending, being a witness in or participating in (including on appeal), or preparing to defend, be a witness in or participate in any claim relating to any matter for which indemnification hereunder may be provided, and costs and expenses paid or incurred by Indemnitee in successfully enforcing this Agreement. Expenses shall be considered paid or incurred by Indemnitee at such time as Indemnitee is required to pay or incur such cost or expenses, including upon receipt of an invoice or payment demand. The Company shall pay the Expenses in accordance with the provisions of Section 1.3.

1.2. Notwithstanding anything herein to the contrary, the Company shall indemnify the Indemnitee under Section 1.1.1 only with respect to events described in **Exhibit A** hereto. The Board of Directors of the Company (the “**Board**”) has determined that the events listed in Exhibit A foreseeable in light of the operations of the Company. The maximum amount of indemnification payable by the Company under Section 1.1.1 of this Agreement for each event described in Exhibit A shall be the higher of (i) the applicable amount set forth in Exhibit A and (ii) 25% of the Company's shareholders' equity set forth on the Company's most recent consolidated balance sheet at the time that the obligation to indemnify hereunder is incurred (the “**Limit Amount**”). The Limit Amount payable by the Company for each event described in Exhibit A is deemed by the Company to be reasonable in light of the circumstances. The indemnification provided under Section 1.1.1 herein shall not be subject to the limitations imposed by this Section 1.2 and Exhibit A if and to the extent such limits are no longer required by the Companies Law.

The Company hereby declares that according to its Articles of Association it is authorized to indemnify the Indemnitee for liability, costs and expenses arising from events which are not described in Exhibit A, and it undertakes to consider any request made by the Indemnitee for such indemnification in accordance with the intent and purpose of this Agreement.

1.3. If so requested by Indemnitee, and subject to the Company’s repayment and reimbursements rights set forth in Sections 3 and 5 below, the Company shall pay amounts to cover Indemnitee’s Expenses with respect to which Indemnitee is entitled to be indemnified under Section 1.1 above, as and when incurred. The payments of such amounts shall be made by the Company directly to the Indemnitee’s legal and other advisors, as soon as practicable, but in any event no later than fifteen (15) days after written demand by such Indemnitee therefor to the Company, and any such payment shall be deemed to constitute indemnification hereunder. All amounts paid as indemnification hereunder shall be grossed-up to cover any tax payment that Indemnitee may be required to make if the indemnification payments are taxable, subject to the Limit Amount if required by applicable law. As part of the aforementioned undertaking, the Company will make available to Indemnitee any security or guarantee that Indemnitee may be required to post in accordance with an interim decision given by a court, governmental or administrative body, or an arbitrator, including for the purpose of substituting liens imposed on Indemnitee’s assets.

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- 1.4. The Company's obligation to indemnify Indemnitee and advance Expenses in accordance with this Agreement shall apply to any actual, possible or threatened claim, action, suit, demand or proceeding or any inquiry or investigation, whether civil, criminal or investigative, arising out of the Indemnitee's service in the Corporate Capacity as described in Section 1.1 above, whether or not Indemnitee is still serving in such position.
- 1.5. The Company undertakes that, subject to the mandatory limitations under applicable law, as long as the Indemnitee is exposed to any actual or potential claim, action, suit, demand, proceeding or any inquiry or investigation, due to the Indemnitee's position as an Office Holder, the Company will purchase and maintain in effect directors and officers liability insurance, which will include coverage for the benefit of the Indemnitee, providing coverage in amounts as determined by the Board. The Company hereby undertakes to notify the Indemnitee 30 days prior to the expiration or termination of the directors and officers' liability insurance.
- 1.6. The Company undertakes to give prompt written notice of the commencement of any claim hereunder to the insurers in accordance with the procedures set forth in each of the policies. The Company shall thereafter diligently take all actions reasonably necessary under the circumstances to cause such insurers to pay, on behalf of Indemnitee, all amounts payable as a result of such action, suit, proceeding, inquiry or investigation in accordance with the terms of such policies. The above shall not derogate from Company's authority to freely negotiate or reach any compromise with the insurer which is reasonable at the Company's sole discretion provided that the Company shall act in good faith and in a diligent manner.

Despite the above, the Company shall not reach a compromise which releases the insurer from its duty to reimburse the Indemnitee for Expenses which Indemnitee personally incurred, without the Indemnitee's prior written approval.

- 1.7. In making a determination with respect to entitlement to indemnification hereunder, the person or persons or entity making such determination shall presume that Indemnitee is entitled to indemnification under this Agreement if Indemnitee has requested it, and the Company shall have the burden of proof to overcome that presumption in connection with the making of any determination contrary to that presumption. In the event that the Company denies Indemnitee's request for indemnification in whole or in part, upon Indemnitee's written request, a determination with respect to Indemnitee's entitlement thereto shall be made in the specific case by an Independent Counsel agreed upon by the Company and the Indemnitee, and in the absence of such agreement - appointed by the head of the Israeli Bar Association.
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“Independent Counsel” means a law firm, or a member of a law firm, that is experienced in matters of Israeli corporate law and neither presently is, nor in the past five years has been, retained to represent: (i) the Company, an “interested party” (as defined in the Companies Law) of the Company or Indemnitee in any matter material to either such party (other than in the capacity of Independent Counsel with this respect to this Agreement or similar indemnification agreements of the Company), or (ii) any other party to the proceeding giving rise to a claim for indemnification hereunder. Notwithstanding the foregoing, the term “Independent Counsel” shall not include any person who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Company or Indemnitee in an action to determine Indemnitee’s rights under this Agreement. The Company agrees to pay the reasonable fees of the Independent Counsel referred to above and to fully indemnify such counsel against any and all expenses, claims, liabilities and damages arising out of or relating to this Agreement or its engagement pursuant hereto, provided, however, that the Independent Counsel shall have the authority, in his sole discretion, to oblige Indemnitee to reimburse the Company for all or a portion of his fees if he believes that Indemnitee’s claims against the Company were made arbitrarily, vexatiously or not in good faith.

**2. SPECIFIC LIMITATIONS ON INDEMNIFICATION.**

Notwithstanding anything to the contrary in this Agreement, the Company shall not indemnify or advance Expenses to Indemnitee with respect to (i) any act, event or circumstance with respect to which it is prohibited to do so under the Companies Law, or (ii) a counter claim made by the Company or in its name in connection with a claim against the Company filed by the Indemnitee.

**3. REPAYMENT OF EXPENSES.**

3.1. In the event that the Company provides or is required to provide indemnification with respect to Expenses hereunder and at any time thereafter the Company determines, based on advice from its legal counsel, that the Indemnitee was not entitled to such payments, the amounts so indemnified by the Company will be promptly repaid by Indemnitee, unless the Indemnitee disputes the Company’s determination, in which case the Indemnitee’s obligation to repay to the Company shall be postponed until such dispute is resolved by a court of competent jurisdiction in a final and non-appealable order.

3.2. Indemnitee’s obligation to repay to the Company for any Expenses or other sums paid hereunder shall be deemed as a loan given to Indemnitee by the Company subject to the minimum interest rate prescribed by Section 3(9) of the Income Tax Ordinance [New Version], 1961, or any other legislation replacing it, which is not considered a taxable benefit.

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4. **SUBROGATION.**

- 4.1. Except as set forth in Section 4.2 below (to the extent applicable), in the event of payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee, who shall execute all documents required and shall do everything that may be necessary to secure such rights, including the execution of such documents necessary to enable the Company effectively to bring suit to enforce such rights.
- 4.2. The Company hereby acknowledges that Indemnitee may have certain rights to indemnification, advancement of Expenses and/or insurance provided by shareholder(s) of the Company and certain of their affiliates (collectively, the “**Secondary Indemnitors**”). In such event, the Company hereby agrees (i) that it is the indemnitor of first resort (i.e., its obligations to Indemnitee are primary and any obligation of the Secondary Indemnitors to advance Expenses or to provide indemnification for the same Expenses or liabilities incurred by Indemnitee are secondary), (ii) that it shall be required to advance the full amount of Expenses incurred by Indemnitee and shall be liable for the full amount of all Expenses, judgments, penalties, fines and amounts paid in settlement to the extent legally permitted and as required by the terms of this Agreement and the Articles of Association of the Company (or any other agreement between the Company and Indemnitee), without regard to any rights Indemnitee may have against the Secondary Indemnitors, and, (iii) that it irrevocably waives, relinquishes and releases the Secondary Indemnitors from any and all claims against the Secondary Indemnitors for contribution, subrogation or any other recovery of any kind in respect thereof. The Company further agrees that no advancement or payment by the Secondary Indemnitors on behalf of Indemnitee with respect to any claim for which Indemnitee has sought indemnification from the Company shall affect the foregoing and the Secondary Indemnitors shall have a right of contribution and/or be subrogated to the extent of such advancement or payment to all of the rights of recovery of Indemnitee against the Company. The Company and Indemnitee agree that the Secondary Indemnitors are express third party beneficiaries of the terms of this Section 4.2.

5. **REIMBURSEMENT.**

Except as set forth in Section 4.2 above (to the extent applicable), the Company shall not be liable under this Agreement to make any payment in connection with any Indemnifiable Event to the extent Indemnitee has otherwise actually received payment under any insurance policy or otherwise (without any obligation of Indemnitee to repay any such amount) of the amounts otherwise indemnifiable hereunder. Any amounts paid to Indemnitee under such insurance policy or otherwise after the Company has indemnified Indemnitee for such liability or Expense shall be repaid to the Company promptly upon receipt by Indemnitee, in accordance with the terms set forth in Section 3.2.

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6. **EFFECTIVENESS.**

The Company represents and warrants that this Agreement is valid, binding and enforceable in accordance with its terms and was duly adopted and approved by the Company, and shall be in full force and effect immediately upon its execution.

7. **NOTIFICATION AND DEFENSE OF CLAIM.**

Indemnitee shall notify the Company of the commencement of any action, suit or proceeding, and of the receipt of any notice or threat that any such legal proceeding has been or shall or may be initiated against Indemnitee (including any proceedings by or against the Company and any subsidiary thereof), promptly upon Indemnitee first becoming so aware; but the omission so to notify the Company will not relieve the Company from any liability which it may have to Indemnitee under this Agreement unless and to the extent that such failure to provide notice materially and adversely prejudices the Company's ability to defend such action. Notice to the Company shall be directed to the Chief Executive Officer or Chief Financial Officer of the Company at the address shown in the preamble to this Agreement (or such other address as the Company shall designate in writing to Indemnitee). With respect to any such action, suit or proceeding as to which Indemnitee notifies the Company of the commencement thereof and without derogating from Sections 1.1 and 2:

- 7.1. The Indemnitee will have the right to select a defense counsel unless the Company has notified him, within 10 days after it receives the Indemnitee's notice as mentioned above, of its decision to assume the Indemnitee's defense, subject to Section 7.2.
  - 7.2. Except as otherwise provided below, the Company, alone or jointly with any other indemnifying party similarly notified, will be entitled to assume the defense thereof, with counsel selected by the Company which counsel is reasonably reputable with experience in the relevant field. In such case, the fees and expenses of such counsel shall be paid by the Company. Indemnitee shall have the right to employ his or her own counsel in such action, suit or proceeding, but the fees and expenses of such counsel incurred after notice from the Company of its assumption of the defense thereof shall be at the expense of Indemnitee, unless: (i) the employment of counsel by Indemnitee has been authorized in writing by the Company; (ii) Indemnitee shall have, in good faith, reasonably concluded that there may be a conflict of interest under the law and rules of attorney professional conduct applicable to such claim between the Company and Indemnitee in the conduct of the defense of such action; or (iii) the Company has not in fact employed counsel to assume the defense of (or perform any other act that requires prompt action in connection with) such action, in which case the reasonable fees and expenses of counsel shall be at the expense of the Company. The Company shall not be entitled to assume the defense of any action, suit or proceeding brought by or on behalf of the Company or as to which Indemnitee shall have reached the conclusion specified in (ii) above.
  - 7.3. The Company shall not be liable to indemnify Indemnitee under this Agreement for any amounts or expenses paid in connection with a settlement of any action, claim or otherwise, effected without the Company's prior written consent.
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- 7.4. Subject to the provisions of Section 7.2, the Company shall have the right to conduct the defense as it sees fit in its sole discretion (provided that the Company shall conduct the defense in good faith and in a diligent manner), including the right to settle or compromise any claim or to consent to the entry of any judgment against Indemnitee without the consent of the Indemnitee, provided that, the amount of such settlement, compromise or judgment does not exceed the Limit Amount (if applicable) and is fully indemnifiable pursuant to this Agreement (subject to Section 1.2 of this Agreement) and/or applicable law, and any such settlement, compromise or judgment does not impose any penalty or limitation on Indemnitee without the Indemnitee's prior written consent. The Indemnitee's consent shall not be required if the settlement includes a complete release of Indemnitee, does not contain any admission of wrong-doing by Indemnitee, and includes monetary sanctions only as provided above. In the case of criminal proceedings the Company and/or its legal counsel will not have the right to plead guilty or agree to a plea-bargain in the Indemnitee's name without the Indemnitee's prior written consent. Neither the Company nor Indemnitee will unreasonably withhold or delay their consent to any proposed settlement.
- 7.5. Indemnitee shall fully cooperate with the Company and shall give the Company all information and access to documents, files and to his advisors and representatives as shall be within Indemnitee's power, in every reasonable way as may be required by the Company with respect to any claim which is the subject matter of this Agreement and in the defense of other claims asserted against the Company (other than claims asserted by Indemnitee), except to the extent Indemnitee has a conflict of interest with the Company in respect thereto, provided that the Company shall cover all expenses, costs and fees incidental thereto such that the Indemnitee will not be required to pay or bear such expenses, costs and fees.

8. **EXCULPATION.**

Subject to the provisions of the Companies Law, the Company hereby releases, in advance, the Office Holder from liability to the Company for any damage that arises from the breach of the Office Holder's duty of care to the Company (within the meaning of such terms under Sections 252 and 253 of the Companies Law), other than breach of the duty of care towards the Company in a distribution (as such term is defined in the Companies Law).

9. **NON-EXCLUSIVITY.**

The rights of the Indemnitee hereunder shall not be deemed exclusive of any other rights Indemnitee may have under the Company's Articles of Association, applicable law or otherwise, and to the extent the indemnification rights of the then serving directors and officers are more favorable to such directors or officers than the indemnification rights provided under this Agreement to Indemnitee, Indemnitee shall be entitled to the full benefits of such more favorable indemnification rights to the extent permitted by law.

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**10. PARTIAL INDEMNIFICATION.**

If Indemnitee is entitled under any provision of this Agreement to indemnification by the Company for some or a portion of the Expenses, judgments, fines or penalties actually or reasonably incurred by Indemnitee in connection with any proceedings, but not, however, for the total amount thereof, the Company shall nevertheless indemnify Indemnitee for the portion of such Expenses, judgments, fines or penalties to which Indemnitee is entitled under any provision of this Agreement. Subject to the provisions of Section 5 above, any amount received by Indemnitee (under any insurance policy or otherwise) shall not reduce the Limit Amount hereunder and shall not derogate from the Company's obligation to indemnify the Indemnitee in accordance with the provisions of this Agreement up to the Limit Amount, as set forth in Section 1.2.

**11. BINDING EFFECT.**

This Agreement shall be binding upon and inure to the benefit of and be enforceable by the parties hereto and their respective successors, permitted assigns (including any direct or indirect successor in the event of a Transaction) and a receiver, liquidator or the like of the Company, heirs, executors and personal and legal representatives. In the event of a reorganization, acquisition, change of control merger or consolidation of the Company or a transfer or disposition of all or substantially all of the business or assets of the Company (each a "Transaction"), the Company shall, or cause its successor (if applicable) to undertake toward the Indemnitee to, fulfill and honor in all respects the obligations of the Company pursuant to this Agreement, and the Company's Articles of Association will contain provisions with respect to exculpation, insurance and indemnification that are at least as favorable to the Indemnitee as those contained in the Articles of Association of the Company as in effect on the date hereof, which provisions will not be amended, repealed or otherwise modified in any manner that would adversely affect the rights thereunder of Indemnitee, unless such modification is required by applicable law.

In the event that the Company consolidates with or merges into any other entity and shall not be the continuing or surviving company or entity of such consolidation or merger or transfers or conveys all or a majority of its properties and assets, then, and in each such case, proper provisions shall be made so that the successors and assigns of the Company, as applicable, shall succeed to the obligations of the Company set forth in this Section 11.

In the event that in connection with a Transaction the Company purchases a directors and officers' "tail" or "run-off" policy for the benefit of its then serving Office Holders, then such policy shall cover Indemnitee and such coverage shall be deemed to be in satisfaction of the insurance requirements under this Agreement. This Agreement shall continue in effect regardless of whether Indemnitee continues to serve in a Corporate Capacity.

**12. SEVERABILITY.**

The provisions of this Agreement shall be deemed severable and the invalidity or unenforceability of any provision shall not affect the validity or enforceability of the other provisions hereof. If any provision of this Agreement, or the application thereof or any circumstance, is invalid or unenforceable, (a) a suitable and equitable provision shall be substituted therefor in order to carry out, so far as may be valid and enforceable, the intent and purpose of such invalid or unenforceable provision and (b) the remainder of this Agreement and the application of such provision or circumstances shall not be affected by such invalidity or unenforceability, nor shall such invalidity or unenforceability affect the validity or enforceability of such provision, or the application thereof, in any other jurisdiction.

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**13. NOTICE.**

All notices and other communications pursuant to this Agreement shall be in writing and shall be deemed provided if delivered personally, telecopied, sent by electronic facsimile, email, reputable overnight courier or mailed by registered or certified mail (return receipt requested), postage prepaid, to the parties at the addresses shown in the preamble to this Agreement, or to such other address as the party to whom notice is to be given may have furnished to the other party hereto in writing in accordance herewith. Any such notice or communication shall be deemed to have been delivered and received (i) in the case of personal delivery, on the date of such delivery, (ii) in the case of telecopier or an electronic facsimile or email, one business day after the date of transmission if confirmation of receipt is received, (iii) in the case of a reputable overnight courier, three business days after deposit with such reputable overnight courier service, and (iv) in the case of mailing, on the seventh business day following that on which the mail containing such communication is posted.

**14. GOVERNING LAW; JURISDICTION.**

This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Israel, without giving effect to the conflicts of law provisions of those laws. The Company and Indemnitee each hereby irrevocably consent to the exclusive jurisdiction and venue of the courts of Tel Aviv, Israel for all purposes in connection with any action or proceeding which arises out of or relates to this Agreement.

**15. ENTIRE AGREEMENT AND TERMINATION.**

This Agreement represents the entire agreement between the parties and supersedes any other agreements, contracts or understandings between the parties, whether written or oral, with respect to the subject matter of this Agreement. [It is hereby expressly agreed and understood that this Agreement amends, restates and supersedes the previous indemnification agreement between Indemnitee and the Company in its entirety. In the event of any contradiction between this Agreement and a previous indemnification agreement between Indemnitee and the Company, the provisions of this Agreement will prevail][*To be added to the extent applicable*].

**16. NO MODIFICATION AND NO WAIVER.**

No supplement, modification or amendment, termination or cancellation of this Agreement shall be binding unless executed in writing by both of the parties hereto. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions hereof (whether or not similar) nor shall such waiver constitute a continuing waiver. Any waiver shall be in writing. The Company hereby undertakes not to amend its Articles of Association in a manner which will adversely affect the provisions of this Agreement.

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**17. ASSIGNMENTS; NO THIRD PARTY RIGHTS**

Neither party hereto may assign any of its rights or obligations hereunder except with the express prior written consent of the other party. Nothing herein shall be deemed to create or imply an obligation for the benefit of a third party. Without limitation of the foregoing, nothing herein shall be deemed to create any right of any insurer that provides directors' and officers' liability insurance, to claim, on behalf of Indemnitee, any rights hereunder.

**18. INTERPRETATION.**

The obligations of the Company according to this Agreement shall be interpreted broadly and in a manner that shall facilitate its execution, to the extent permitted by law, and for the purposes for which it was intended. For example, the obligations of the Company shall apply to any type of legal proceeding, including without limitation, a proceeding brought against Indemnitee alone or jointly with other defendants, and whether the plaintiff is a third party, the Company or Office Holders or shareholders thereof. In addition, the Company agrees that it shall not contend that an act was committed by the Indemnitee recklessly unless it can prove that such recklessness attained a level equivalent to that of an act committed with actual deliberate intent. In the event of a conflict between any provision of this Agreement and any provision of the law, said provision of the law shall supersede the specific provision in this Agreement, but shall not limit or diminish the validity of the remaining provisions of this Agreement.

**19. COUNTERPARTS**

This Agreement may be executed in any number of counterparts, each of which shall be deemed an original and enforceable against the parties actually executing such counterpart, and all of which together shall constitute one and the same instrument; it being understood that parties need not sign the same counterpart. The exchange of an executed Agreement (in counterparts or otherwise) by facsimile or by electronic delivery in pdf format shall be sufficient to bind the parties to the terms and conditions of this Agreement, as an original.

*[SIGNATURE PAGE TO FOLLOW]*

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IN WITNESS WHEREOF, the parties, each acting under due and proper authority, have executed this Indemnification Agreement as of the date first mentioned above, in one or more counterparts.

**PERION NETWORK LTD.**

By: \_\_\_\_\_

Name and title: \_\_\_\_\_

By: \_\_\_\_\_

Name and title: \_\_\_\_\_

**INDEMNITEE:**

Name: \_\_\_\_\_

Signature: \_\_\_\_\_

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**EXHIBIT A\***

<b>TYPE OF EVENT</b>	<b>LIMIT AMOUNT</b>
1. Claims in connection with employment relationships with employees of the Company, and in connection with business relations between the Company and its employees, independent contractors, customers, suppliers and various service providers.	US\$50,000,000
2. Negotiations, execution, delivery and performance of agreements of any kind or nature, anti-competitive acts, acts of commercial wrongdoing, approval of corporate actions including the approval of the acts of the Company's management, their guidance and their supervision, actions concerning the approval of transactions with Office Holders or shareholders, including controlling persons and claims of failure to exercise business judgment and a reasonable level of proficiency, expertise and care with respect to the Company's business.	US\$50,000,000
3. Violation, infringement and other misuse of copyrights, patents, designs, trade secrets and any other intellectual property rights, breach of confidentiality obligations, acts in regard of invasion of privacy including with respect to databases or personal information, acts in connection with slander and defamation, and claims in connection with publishing or providing any information, including any filings with any governmental authorities, whether or not required under any applicable laws.	US\$50,000,000
4. Violations of securities laws of any jurisdiction, including without limitation, fraudulent disclosure claims, failure to comply with any securities authority or any stock exchange disclosure or other rules and any other claims relating to relationships with investors, debt holders, shareholders and the investment community and any claims related to the Sarbanes-Oxley Act of 2002, as amended from time to time; claims relating to or arising out of financing arrangements, any breach of financial covenants or other obligations towards lenders or debt holders of the Company, class actions, violations of laws requiring the Company to obtain regulatory and governmental licenses, permits and authorizations in any jurisdiction; actions taken in connection with the issuance of any type of securities of Company, including, without limitation, the grant of options to purchase any of the same.	US\$50,000,000

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5.	Liabilities arising in connection with any products or services developed, distributed, sold, provided, licensed or marketed by the Company, and any actions in connection with the distribution, sale, license or use of such products.	US\$50,000,000
6.	The offering of securities by the Company to the public and/or to private investors or the offer by the Company to purchase securities from the public and/or from private investors or other holders pursuant to a prospectus, agreements, notices, reports, tenders and/or other proceedings.	US\$50,000,000
7.	Events in connection with change in ownership or in the structure of the Company, its reorganization, dissolution, or any decision concerning any of the foregoing, including but not limited to, merger, sale or acquisition of assets, division or change in capital.	US\$50,000,000
8.	Any claim or demand made in connection with any transaction not in the ordinary course of business of the Company, including the sale, lease or purchase of any assets or business.	US\$50,000,000
9.	Any claim or demand made by any third party suffering any personal injury and/or bodily injury or damage to business or personal property or any other type of damage through any act or omission attributed to the Company, or its employees, agents or other persons acting or allegedly acting on its behalf.	US\$50,000,000
10.	Any claim or demand made directly or indirectly in connection with complete or partial failure, by the Company or its directors, officers and employees, to pay, report, keep applicable records or otherwise, of any foreign, federal, state, county, local, municipal or city taxes or other compulsory payments of any nature whatsoever, including, without limitation, income, sales, use, transfer, excise, value added, registration, severance, stamp, occupation, customs, duties, real property, personal property, capital stock, social security, unemployment, disability, payroll or employee withholding or other withholding, including any interest, penalty or addition thereto, whether disputed or not.	US\$50,000,000

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| 11. | Any administrative, regulatory, judicial or civil actions, orders, decrees, suits, demands, demand letters, directives, claims, liens, investigations, proceedings or notices of noncompliance or violation by any governmental entity or other person alleging potential responsibility or liability (including potential responsibility or liability for costs of enforcement investigation, cleanup, governmental response, removal or remediation, for natural resources damages, property damage, personal injuries or penalties or for contribution, indemnification, cost recovery, compensation or injunctive relief) arising out of, based on or related to circumstances forming the basis of any violation of any environmental law or environmental permit, license, registration or other authorization required under applicable environmental law and/or public health law. | US\$50,000,000 |
| 12. | Any administrative, regulatory or judicial actions, orders, decrees, suits, demands, demand letters, directives, claims, liens, investigations, proceedings or notices of noncompliance or violation by any governmental entity or other person alleging the failure to comply with any statute, law, ordinance, rule, regulation, order or decree of any governmental entity applicable to the Company or any of its businesses, assets or operations, or the terms and conditions of any operating certificate or licensing agreement.   | US\$50,000,000 |
| 13. | Participation and/or non-participation at the Company's Board meetings, bona fide expression of opinion and/or voting and/or abstention from voting at the Company's Board meetings.   | US\$50,000,000 |
| 14. | Review and approval of the Company's financial statements, including any action, consent or approval related to or arising from the foregoing, including, without limitations, execution of certificates for the benefit of third parties related to the financial statements.   | US\$50,000,000 |
| 15. | All actions, consents and approvals relating to a distribution of dividends, in cash or otherwise.   | US\$50,000,000 |
| 16. | Liabilities arising out of advertising, including misrepresentations regarding the Company's products and unlawful distribution of emails.   | US\$50,000,000 |

\* Any reference in this Exhibit A to the Company shall include the Company and any entity in which the Indemnitee serves in a Corporate Capacity.

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List of Subsidiaries

1. IncrediMail Inc., a Delaware corporation
  2. ClientConnect Ltd., an Israeli company
  3. Interactive Holding Corp., a Delaware corporation
  4. IncrediTone Inc., a Delaware corporation
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CERTIFICATIONS

I, Doron Gerstel, certify that:

1. I have reviewed this annual report on Form 20-F of Perion Network Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer(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 Company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent 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 Company's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: March 27, 2018

/s/ Doron Gerstel  
Doron Gerstel  
Chief Executive Officer

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CERTIFICATIONS

I, Maoz Sigron, certify that:

1. I have reviewed this annual report on Form 20-F of Perion Network Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer(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 Company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent 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 Company's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: March 27, 2018

By:/s/ Maoz Sigron  
Maoz Sigron  
Chief Financial Officer

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CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 20-F of Perion Network Ltd., (the "Issuer"), for the period ended December 31, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Doron Gerstel Chief Executive Officer of the Issuer, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

1. The Report containing the financial statements fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. Information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Issuer.

Date: March 27, 2018

By: /s/ Doron Gerstel  
Doron Gerstel  
Chief Executive Officer

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CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 20-F of Perion Network Ltd., (the "Issuer"), for the period ended December 31, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Maoz Sigron, Chief Financial Officer of the Issuer, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

1. The Report containing the financial statements fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. Information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Issuer.

Date: March 27, 2018

by: /s/ Maoz Sigron  
Maoz Sigron  
Chief Financial Officer

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**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in the Registration Statements on Form F-3 (Registration Nos. 333-208785 and 333-195794) and Form S-8 (Registration Nos. 333-208278, 333-203641, 333-193145, 333-192376, 333-188714, 333-171781, 333-152010, 333-133968 and 333-216494), of our reports dated March 27, 2018, with respect to the consolidated financial statements of Perion Network Ltd. and its subsidiaries, which appear in this Annual Report on Form 20-F for the year ended December 31, 2017.

Tel Aviv, Israel  
March 27, 2018

/s/KOST FORER GABBAY & KASIERER

KOST FORER GABBAY & KASIERER

A member of Ernst & Young Global

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