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, 2012

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)

4 HaNechoshet Street
Tel Aviv, Israel 69710
(Address of principal executive offices)

Yacov Kaufman, CFO
Tel: +972-3-7696-109; Fax: +972-3-644-5502
4 HaNechoshet Street
Tel Aviv, Israel 69710
(Name, Telephone, E-mail and /or Facsimile Number and Address of Company Contact Person)

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

Title of Each Class	Name of Each Exchange on which Registered
Ordinary shares, par value NIS 0.01 per share	NASDAQ Global 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, 2012, the Registrant had outstanding 12,064,510 ordinary shares, par value NIS 0.01 per share.

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

Yes £ No T

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 T

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 T 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 T No £

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

Large accelerated filer £ Accelerated filer £ Non-accelerated filer T

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

U.S. GAAP T 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 T

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. 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. On April 24, 2013, the exchange rate between the NIS and the dollar, as quoted by the Bank of Israel, was NIS 3.6 to $1.00.

Trademarks

Perion™, IncrediMail™, PhotoJoy™, Smilebox Teeth Design™, Smilebox™, SWEETPACKS™ and SWEETIM™ are our trademarks. All other trademarks and trade names appearing in this Annual Report are owned by their respective holders.

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 industry's, 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

The following tables present selected financial data and should be read in conjunction with "Item 5 - Operating and Financial Review and Prospects" and our consolidated financial statements and related notes appearing elsewhere in this annual report. We derived the selected operations data below for the years ended December 31, 2010, 2011 and 2012 and the selected balance sheet data as of December 31, 2011 and 2012 from our audited consolidated financial statements included elsewhere in this report. We derived the selected operations data below for the years ended December 31, 2008 and 2009 and the selected balance sheet data as of December 31, 2008, 2009 and 2010 from our audited consolidated financial statements not included 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").

	Year ended December 31,				
Statement of Operations Data:	**2008**	**2009**	**2010**	**2011**	**2012**
	U.S. dollars in thousands (except share and per share data)				
Revenues					
Search	$ 11,747	$ 20,011	$ 22,792	$ 25,466	$ 38,061
Products	9,158	6,717	5,404	7,191	17,574
Other	1,001	467	1,301	2,816	4,588
	$ 21,906	$ 27,195	$ 29,497	$ 35,473	$ 60,223
Cost of revenues	1,795	1,505	1,606	2,840	5,230
Gross profit	20,111	25,690	27,891	32,633	54,993
Operating expenses:					
Research and development costs, net	7,589	6,254	6,607	7,453	10,735
Selling and marketing expenses	7,343	4,616	5,244	12,984	29,517
General and administrative expenses	3,806	3,334	4,741	7,649	8,560
Goodwill impairment and other charges	1,153	-	-	-	-
Total operating expenses	19,891	14,204	16,592	28,086	48,812
Operating income	220	11,486	11,299	4,547	6,181
Financial income, net	4,494	72	322	1,293	(174)
Income, before taxes on income	4,714	11,558	11,621	5,840	6,007
Taxes on income	289	3,545	3,232	172	2,473
Net income	$ 4,425	$ 8,013	$ 8,389	$ 5,668	$ 3,534
Net earnings per share:					
Basic	$ 0.47	$ 0.86	$ 0.87	$ 0.58	$ 0.35
Diluted	$ 0.46	$ 0.84	$ 0.85	$ 0.57	$ 0.34
Weighted average number of shares used in net earnings (loss) per share:					
Basic	9,427,424	9,347,915	9,622,181	9,796,380	10,159,049
Diluted	9,516,477	9,562,721	9,831,628	10,002,171	10,366,808

	As of December 31,				
	2008	2009	2010	2011	2012
	(in thousands)				
Balance Sheet Data:					
Cash and cash equivalents	$ 7,835	$ 24,368	$ 16,055	$ 11,260	$ 21,762
Working capital	25,143	26,846	28,067	(27)	(4,296)
Total assets	37,651	39,894	41,348	54,904	123,159
Total liabilities	12,107	12,892	13,196	23,083	68,449
Shareholders' equity	25,544	27,002	28,152	31,815	54,710

B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

C. REASONS FOR OFFER AND USE OF PROCEEDS

Not applicable.

D. RISK FACTORS

Investing in our ordinary shares involves a high degree of risk. You should consider carefully the following risk factors, as well as the other information in this annual report before deciding to invest in our ordinary shares. Our business, financial condition or results of operations could be affected adversely by any of these risks. The trading price of our ordinary shares could decline due to any of these risks and you might lose all or part of your investment in our ordinary shares.

Risks Related to Our Business

If the Google AdSense for Search program is terminated or significantly changed by Google, we may experience a material reduction in our search generated revenues or the profits they create, we could be forced to immediately seek an alternative search provider, and even then we would be susceptible to a certain transition period during which we may experience a material reduction in our search generated revenues and, possibly a long-term decrease in search generated revenues and, in turn, an adverse effect on our financial condition.

Our business is currently very dependent on search based revenues, currently utilizing primarily the Google AdSense program, pursuant to which we receive a portion of the amount paid by advertisers to Google for the activity performed by those downloading the Company's applications. This dependence continues to grow and we obtained approximately 63% of our revenues for the year ended December 31, 2012 from this partnership. While our strategy is to diversify our revenue streams and limit this dependence, we expect this venue to continue to generate a major portion of our revenues in the foreseeable future.

On April 23, 2013, we entered into a new agreement with Google, effective from May 1, 2013 to April 30, 2015. The new agreement combines the activities of Perion and SweetIM, a consumer internet company we acquired in November 2012 (see "Recent Developments" under Item 4A below) into one agreement and replaces both of the existing agreements with Google. The new agreement, as in past agreements, enables termination by either side after one year with 90 days notice. In addition, Google is entitled to amend the agreement, change its policies and guidelines, and has other limited termination rights. If this agreement is terminated, substantially amended, or not renewed on favorable terms, we could experience a material decrease in our search generated revenues or the profits they create and we could be forced to seek alternative search providers. There are very few companies in the market that provide Internet search and advertising services similar to those provided by Google. Google is the most dominant player in this market, particularly on a global scale, and competitors do not offer as much coverage through sponsored links. If we fail to quickly locate, negotiate and finalize alternative arrangements, or if the alternatives do not provide for terms that are as favorable as those provided for by the AdSense program, or if the alternative arrangement will not attract the same traffic as the traffic attracted by the Google AdSense program, or if the termination by Google affects our ability to contract other providers, 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 failure to retain existing users, or attract new users, as well as generate traffic to our search properties, could adversely affect our business, financial condition and results of operations.

We rely heavily on the ability to offer our search properties to users of our software products and subsequently retain them. Should this offering be blocked, constrained, limited, materially changed, or made redundant, by Google or the providers of the underlying platforms, our ability to generate revenues from our users' search activity could be significantly reduced.

Approximately 63% of our revenues for the year ended December 31, 2012 were generated from the acceptance and subsequent retention of our search properties by the users of our software products. The market for offering and retaining these search properties is very competitive. In addition, some companies offer a browser without the existence of, or may cause difficulties in resetting, a homepage or the ability to install toolbars or reset the default search provider. The guidelines imposed pursuant to our agreement with Google, with respect to homepage resets, installing toolbars and default search resets to Google services when providing downloadable applications have recently changed, as compared to the previous agreement, and this may have negative revenue implications. Should Google or other companies providing internet browsers, effectively further restrict, discourage, or otherwise hamper companies, like us, from offering or changing the search properties, there would be a material adverse effect on our search generating revenue model and our financial results.

The generation of revenues from search activity has become subject to fierce competition. We obtain a significant portion of our revenues from searches made by users of our search properties. If we cannot compete effectively in this market, our revenues are likely to decline.

We obtain a significant portion of our revenues from searches made through designating the Company as the default search provider, by installation of toolbars, as well as offering other search properties. We therefore are constantly looking for ways to convince our users to designate the Company as its default search provider and accept the other search properties offered. There are a growing number of companies that generate an increasing amount of their revenues from searches, some of them with a more significant presence than ours and with greater capability to offer substantially more content, and others utilizing aggressive marketing practices that we are unwilling to use as it detracts from the user experience or are not permitted by our agreements or accepted practices. In addition, with competition growing, even the larger and in the past more conservative companies (such as Google, Microsoft and others) have become increasingly aggressive in their search service offering. Therefore, our ability to attract new users to install Perion's search assets and to retain existing users, could suffer, preventing or delaying our ability to increase our revenues, or even causing them to decline.

The marketing of our search services significantly relies on our ability to advertise and distribute our products together with the distribution of free software from other companies. Should Google or our other search partners institute material changes in our ability to partner with distribution partners, it would be more difficult to acquire new customers and would adversely affect our revenues.

Over the last year, our reliance on advertising for acquiring new customers in conjunction with other companies distributing other free software products has grown dramatically and is an integral part of our plans to continue to achieve rapid growth. These distribution partnerships are regulated by our search partners, including Google. This method of distribution has been very effective for us in the past and has significantly contributed to our growth. Should Google continue to implement changes to its rules and restrict us from working with distribution partners, our ability to market our products and search services would be limited, which would adversely affect our results of operations.

Social related software and Facebook in particular, is becoming an increasingly dominant method of communication over the internet. If Facebook increases its dominance over other forms of communication, or changes the way people share content and we are not able to adapt our products to this new environment, the number of users of our products could decrease and our revenues could decline.

A significant portion of our revenues stems from the usage of our IncrediMail email client. Although IncrediMail does accommodate certain aspects of communication through Facebook, if the usage of Facebook or other social related software replaces email as a method of communication, this would decrease the usage of our email client and subsequently have a negative effect on our revenues.

In addition, our IncrediMail email client and other products, interface with Facebook, which we believe contributes to the usage by our users of our products. If Facebook were to change the guidelines and policies governing their cooperation with companies like us, these changes could negatively impact the use of our products.

A significant portion of the users of our Smilebox photo-sharing product uses Facebook to share their creations. We could be impacted by changes that Facebook makes in how our users are able to post content into Facebook pages. These changes could negatively impact the ability of our Smilebox users to post content into Facebook, which would adversely affect the usage of our Smilebox photo-sharing product and our revenues from such product.

If we are unable to continually enhance our existing products and develop new products that achieve widespread market acceptance, our ability to attract and retain customers could be impaired, our competitive position may be harmed and we may be unable to generate additional revenues.

Our ability to generate advertising and search revenues is, amongst others, a function of the number of users of our products. In addition, a portion of the registered or active users of our free products end up becoming paying customers of our products and services. In order to induce consumers to use our products, accept the search properties offered, and purchase or license our products, we must continually enhance our existing products by offering additional features and content that appeal to our unique user base. Maintaining the usability and relevance of existing products and the development and commercialization of new products can be very complex. Software product development and commercialization depends upon a number of factors, including:

- accurate prediction of market requirements, market preferences and trends and evolving standards;
- development of advanced technologies and capabilities;
- timely completion and introduction of new product designs and features that incorporate market requirements and preferences;
- recruiting and retaining highly qualified personnel;
- marketing new products; and
- market acceptance of the enhanced and new products.

We may be unable to maintain the usability and relevance of our existing products or to develop new products. Furthermore, we may not develop or introduce new products or product enhancements in time to take advantage of market opportunities or achieve a significant or substantial level of acceptance in new or existing markets. If we fail to do so, our ability to attract and retain customers could be impaired, our competitive position may be harmed and we may be unable to generate substantial revenues.

If we are unable to establish and increase market acceptance of our products, we will not expand our business and our revenues could decline.

Our ability to execute our business strategy depends on market demand for software programs that are simple, safe and useful, and on our ability to maintain these characteristics in our existing products and those that will be bought or internally developed in the future. For instance, the fact that many email users have multiple email clients and accounts, many of which are likely provided to them free of charge by large Internet and software companies, positively affects the potential market demand for our enhanced email software products. The growing popularity of web based mail and its increased functionality and mobility negatively affect the potential market demand for our primarily PC based email client. Our photo sharing product has benefited from the social trend of sharing digital photos, while the increasing popularity for taking and viewing photos on mobile devices pose a challenge for our primarily desktop oriented user experience. The rate of adoption and acceptance of our products may be affected adversely by changing consumer preferences, product obsolescence, technological change, market competition and our products' quality and novelty.

Our results of operations and financial condition may be adversely impacted by worldwide economic conditions.

Our primary user base is composed of individual consumers and for the most part their discretionary purchase habits. The current overall lack of growth in the U.S. and European economies following a few years of weak performance has resulted in continued negative pressure on consumer spending in general, and discretionary spending in particular, and has impacted consumers in our market territories in ways that could negatively affect our business. In the event that the United States or Europe experiences an economic downturn, or the current economic climate worsens, our current and potential software license subscribers may be unable or unwilling to purchase our products or use our service. This would also have a negative impact on consumer internet spending and search generated revenues. A reduction in the purchasing of our products or use our services, consumer internet spending and search generated revenues have had a negative impact in the past, and may possibly have a greater negative impact in the future, on our sales and revenue generation, margins and operating expenses, and consequently have a material adverse effect on our business, results of operations and financial condition.

Our "viral" growth could be adversely affected if we do not increase the number of our registered users or if users stop using our software.

To increase our user base, we continue to rely to a certain extent on "viral marketing" which induces our users to pass along marketing information to other potential users with the aim of generating "viral" growth. Although the pace of our viral growth has declined, this marketing method is of relatively low cost and remains an important part of our growth strategy. Other marketing methods, while effective, are far more costly. As users of our products stop, reduce, or limit their usage, our viral growth will decline because these users will no longer forward links to our site via their emails, and as a result our market share and revenues could decrease. Our historical experience with usage of our products indicates that usage of our products declines rapidly over time, although some continue to use them for as long as six years. Therefore, in order to induce our existing users to continue to use our products, we must continually enhance our existing products and periodically develop new ones. If we cannot offer such products because of lack of resources, competition or other reasons described elsewhere in these Risk Factors, our distribution, revenues and results of operations could be adversely affected.

The market for desktop email software products and services is declining, as web based solutions for the desktop are gaining in popularity.

One of our major products competes in the market for email software products and services that aim to offer a customized personal, productive and entertaining email experience for consumers. Our main competitors are those providing a web-based email solution, which does not require the user to download software, and thus provides a very mobile and accessible email tool. Some of these competitors provide (or will provide) a downloadable email client as well. 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 email clients. In addition, many of our competitors providing a web-based solution have more established brands, products and customer relationships than we do, which could inhibit our market penetration efforts even if they may not offer features similar to *IncrediMail*®. For example, consumers may choose to receive an extensive package of Internet and email services from a more dominant and recognized company, such as Google (Gmail), Microsoft Corporation (Outlook), Facebook, or Yahoo! (Yahoo Mail).

Should this trend accelerate faster than our ability to provide differentiating advantages in our downloadable email solution, this could result in fewer downloads of our email product, lower search revenues, less use of our product, fewer purchases of our products and services and loss of market share. See "Item 4.B Business Overview — Competition" for additional discussion of our competitive market.

We rely significantly on our ability to advertise through the Google AdWords network for marketing and acquiring new users of our products. Should Google make additional substantial changes to this network or if it becomes substantially more expensive, it would be more difficult and expensive to acquire new customers and would negatively affect our revenues.

Over the last few years our reliance on advertising for acquiring new customers has grown dramatically and is an integral part of our plans to continue to achieve accelerated growth. One of the main venues for advertising our products is Google's AdWords network. Google sets the standards and the pricing for using this network. Although there are alternative networks and platforms for advertising, none are currently as popular as Google's. Should Google continue to further change the rules for using this network and the way distributers of downloadable software products interact with it, or if the cost of advertising our products increases more than it already has, our ability to market our products would be limited, which would negatively affect our results of operations.

We have acquired and intend to continue to acquire other businesses. These acquisitions divert a substantial part of our resources and management attention, could cause dilution to our shareholders and adversely affect our financial results.

We acquired Smilebox in August 2011 and SweetIM in November 2012, and we intend to continue to acquire complementary products, technologies or businesses. Prior to these acquisitions our management had limited experience together as a team in making acquisitions or integrating acquired businesses. Seeking and negotiating potential acquisitions to a certain extent diverts our management's attention from other business concerns, is expensive and time-consuming. New acquisitions could expose our business to unforeseen liabilities or risks associated with the business or assets acquired or with entering new markets. In addition, we might lose key employees while integrating new organizations and we might not effectively integrate the acquired products, technologies or businesses or achieve anticipated revenues or cost benefits. Future acquisitions could result in customer dissatisfaction, performance problems with an acquired product, technology or company. Paying the purchase price for acquisitions in the form of cash, debt or equity securities could weaken our cash position, increase our leverage or dilute our existing shareholders, as the case may be. Furthermore, a substantial portion of the cost of 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 or other unanticipated events or circumstances relating to the acquisition, and we may not have, or may not be able to enforce, adequate remedies in order to protect our Company. If any of these or similar risks relating to acquiring products, technologies or businesses should occur in the future on a scale that is larger than the effect of the acquisition described above, our business could be materially harmed.

If we are deemed to be not in compliance with applicable data protection laws, our operating results could be materially affected.

We collect and maintain certain information about our customers in our database. Such collection and maintenance of customer information is subject to data protection laws and regulations in Israel and may be subject to laws and regulations in, the United States, the European Union and other countries as well. 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.

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 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 effect on our business. See "Item 4.B Business Overview — Government Regulation" for additional discussion of applicable regulations.

If users or third parties express privacy or security concerns regarding our collection, use and handling of personal information, we could incur substantial expenses.

Although we strive to comply with strict privacy data security requirements and take all reasonable steps to ensure the security of personal information, concerns may be expressed, from time to time, about whether our products compromise the privacy or confidentiality of the information of users and others. Concerns about our collection, use, sharing or handling of personal information or other privacy related matters, even if unfounded, could damage our reputation and operating results. See "Item 4.B Business Overview — Government Regulation" for additional discussion of applicable regulations.

We depend on a third party Internet and telecommunication provider to operate our websites. Temporary failure of these services would reduce our revenues and damage our reputation, and securing alternate sources for these services could significantly increase our expenses.

Our websites are currently hosted on Amazon Web Services, Inc., Bezeq International Ltd. and Limelight Networks Inc. Each of such companies may not continue to provide services to us without disruptions in services at the current cost or at all. Although there is certain overlap between such companies, such a disruption in services by any one of them, even if temporary, would reduce our revenues from product sales, and possibly even from search, depending on the extent of disruption. While we have begun migrating the hosting services to Amazon's cloud based service, and we believe that there are many alternative providers of hosting and other communication services available to us, and the company has a plan for adjusting and adapting in such an event, the costs associated with the contemplated and any other transition to a new service provider could be substantial and require us to reengineer our computer systems and telecommunications infrastructure to accommodate a new service provider. Such processes could be both expensive and time consuming and could result in lost business both during the transition period and after.

Our servers and communications systems could be damaged or interrupted by fire, flood, power loss, telecommunications failure, earthquakes, acts of war or terrorism, acts of God, computer viruses, physical or electronic break-ins and similar events or disruptions. Although we maintain back-up systems for our servers, any of these events could cause system interruption, delays, loss of critical data and lost registered users and revenues.

We currently rely solely on the Internet as a means to sell our products. Accordingly, if we, or our customers, are unable to utilize the Internet due to a failure of technology or infrastructure, hacking, terrorist activity or other reasons, we could lose current or potential customers and revenues. While we have backup systems for most aspects of our operations, our systems are 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.

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

Our software may contain undetected errors, failures or defects, especially when the products are first introduced or when new versions are released. Our customers' computer 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. Therefore, there could be errors or failures in our products. In addition, despite testing by us and beta testing by some of our registered 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 likely 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, 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 could cause interruptions.

Due to our evolving business model and rapid changes in the Internet, we may not be able to accurately predict our future performance or continue our revenue growth or profitability.

Since beginning operations in 2000, we have introduced many new products and initiatives, some of which have been unsuccessful. In addition, our revenue mix between products, search generated revenue and other advertising revenue has changed dramatically over the years. Consequently, in some cases, we have a limited history of ongoing operations from which to predict our future performance and making such predictions is very complex and challenging, particularly with regard to aggressively increasing the distribution and profitability of search generated revenue, new products and initiatives and scaling existing business. The future viability of our business will greatly depend on our ability to increase search generated revenues with a sufficient return on investment, increase product sales, introduce new products, including adapting and creating products for new platforms such as mobile platforms, appealing to the Internet market, increase search generated, affiliate and advertising revenues, exploit our brand name and control our costs, which we may be unable to do. As a result, we may not be able to continue our revenue growth or profitability.

We may have difficulty managing our growth, which could limit our ability to increase our sales and control our costs.

We have invested heavily to increase the organic growth of our operations in recent years. These investments have included recruiting of experienced personnel, investments in infrastructures, advertising and the acquisition of new businesses and products. This strategy for emphasizing accelerated growth is required in order to achieve our business objectives, and is placing increased demands on our management and on our operational resources. This growth has, and continues to increase the challenges involved in:

- implementing appropriate operational and financial systems and controls;
- expanding our sales and marketing infrastructure and capabilities;
- expanding our infrastructures and technological capabilities; and
- maintaining the commitment of our employees.

If we cannot scale and manage our business appropriately, we will not experience our projected growth and our financial results will suffer.

A decline in market acceptance for Microsoft technologies on which our products rely could have a material adverse affect on us.

Most of our products and virtualy all of our revenues currently run or are based on Microsoft Windows operating systems. Recently the Android and Apple operating systems have gained popularity and market share, particularly in the mobile market, although still accounting for only a small part of the desktop market. A decline in market acceptance of Microsoft technologies or the increased acceptance of other operating systems without products that work on these competing operating systems in a timely fashion could have a material adverse effect on our ability to market our products. Consumers are adopting these alternative technologies in increasing numbers and are migrating to other computing technologies that we do not currently support. In addition, our products and technologies must continue to be compatible with new developments in Microsoft technologies. We cannot assure you that we can maintain such compatibility or that we will not incur significant expenses in connection therewith.

More individuals are using non-PC devices to access the Internet, and most of our products and services are currently not usable on these competing platforms.

The number of individuals who access the Internet through devices other then personal computers, such as mobile phones, tablets, etc., has increased dramatically. While we have begun introducing mobile based products, such as Smilebox for the iPhone and most recently IncrediMail for the iPad, our products for the most part are not yet compatable with these alternative platforms and devices and we have not yet implemented revenue generation models for our mobile applications. If this trend accelerates and an increasing number of consumers find our products difficult to access through such devices, we may fail to capture a sufficient share of an increasingly important portion of the market for online services, our products will become less relevant and may fail to attract advertisers and web traffic. In addition, even if consumers do use our mobile applications, our revenue growth will still be adversely affected if we do not successfully implement revenue generating models for our mobile applications.

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

A majority of our revenues are denominated in U.S. dollars. However, a significant portion of our sales is in currencies other than the U.S. dollar, either received directly by us in these currencies or received by our search partner in other currencies, but first converted into U.S. dollars prior to being transferred to us. In 2012, approximately 10% of our revenue was received directly by us in non-U.S. currencies and an estimated 49% of our revenue was received by our search partner in non-U.S. currencies, although converted by our search partner into U.S. dollars prior to being transferred to us. As a majority of the sums received in non-U.S. currencies, their precise currency, timing or amounts received by our partner is not known by us, we are unable to hedge against the risk of fluctuations in these exchange rates and we bear a foreign currency fluctuation risk. In addition, a substantial part of our costs, mainly 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 reduce our income before taxes by approximately $0.01 million. The exchange rate of the U.S. dollar to the NIS has been very volatile in the past three fiscal years, decreasing by approximately 5% in 2010, decreasing by approximately 4% in 2011 and increasing by approximately 8% in 2012. As of December 31, 2012, we had a foreign currency net asset of approximately $4 million and our total foreign exchange income was approximately $170 thousand for the year ended December 31, 2012. In addition, in market territories where our prices are based on local currencies, fluctuations in the dollar exchange rate could affect our gross profit margin. 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. Based on the advice received from this firm, we are advised that we are unable to hedge exchange risks associated with revenues indirectly originating in non-U.S. dollar currencies, but received in U.S. dollars. We do not hedge the exchange risk from revenues received directly by us in non-U.S. currencies, as the amounts of these revenues are not material. 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.

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 continued services of our senior management, particularly Josef Mandelbaum, our Chief Executive Officer. Our current strategy is to a great extent a function of his capabilities and experience, together with the experience and knowledge of our other senior management. The loss of the services of these personnel 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. If we cannot attract and retain additional key employees or 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. See "Item 6 Directors, Senior Management and Employees."

Under current Israeli law, we may not be able to enforce non-competition covenants and, therefore, may be unable to prevent our competitors from benefiting from the expertise of some of our former employees.

We have entered into non-competition agreements with most of our professional employees. These agreements prohibit our employees, if they cease working for us, from competing directly with us or working for our competitors for a limited period. Under current Israeli 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.

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.

We derive and expect to continue to derive a substantial portion of our revenues from users outside United States. Our international sales and related operations 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;
- 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.

Risks Related to Our Intellectual Property

Unlawful copying of our products or other third party violations of existing legal protections or reductions in the legal protection for intellectual property rights of software developers or use of open source software could adversely affect our distribution and revenue.

The software products that we sell incorporate a technology that reduces the ability of third parties to copy the software without having paid for it. Unlicensed copying and use of software and intellectual property rights lead to a loss of potential users and revenue to us, which could be more significant in countries where laws are less protective of intellectual property rights. Continued educational and enforcement efforts by governmental authorities may not adequately address this problem, and further deterioration in compliance with existing legal protections or reductions in the legal protection for intellectual property rights of software developers could adversely affect our revenue.

In addition, certain of our products or services may now or in the future incorporate open source software, which are typically distributed "as-is" without warranties, such as warranties of performance or ownership or indemnities against intellectual property infringement claims. Moreover, to the extent that we incorporate open source software into our products or services the license for such open source software may obligate us, among other things, to pass on to our licensees without charge the rights to use, copy, modify and redistribute the underlying software source code, both with respect to the original open source code, any modifications and/or derivatives to such code created by us.

If we fail to detect and stop misrepresentations of our site and products, or for some reason are perceived as promoting malware or "spamming" or unjustly changing the user's computer settings, we could lose the confidence of the users of our products and services, or our software or provision of search services or advertising could be blocked by software or utilities designed to detect such practices, thereby causing our business to suffer.

We are exposed to the risk of domains using our brand names (such as "IncrediMail", "Smilebox", "SweetIM", etc.) in various ways, and attracting in this manner our potential or existing users. These domains often engage in fraudulent or spam activities and their use of our brand names can result in damage to our reputation and loss of our clients' confidence in our products. In addition, if we or our products were for some reason perceived as promoting "malware or "spamming", or unjustly changing the user's computer settings, our software or provision of search services or advertising could be blocked by software or utilities designed to detect such practices. If we are unable to effectively detect and terminate this misrepresentation activity of others or the way that we and our products are perceived, we may lose users and our ability to produce revenues will be harmed.

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.

The appeal of our products is largely the result of the graphics, sound and multimedia content that we incorporate into our products. We enter into licensing arrangements with third parties for these uses. However, other third parties may from time to time claim that our current or future use of content, sound and graphics infringe their intellectual property rights, and seek to prevent, limit or interfere with our ability to make, use or sell our products. We have experienced such claims in the past although ultimately with no material consequence.

If it appears necessary or desirable, we may seek to obtain licenses for 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 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.

If we do not prevail in a third-party action for infringement, we may be required to pay substantial damages and be prohibited from using intellectual property essential to our products. We may become involved in litigation not only as a result of alleged infringement of a third-party's intellectual property rights, but also to protect our own intellectual property rights.

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 brand name infringes their trademark rights. In addition, names we choose for our products may be claimed 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.

Risks Related to Our Industry

The digital advertising market is very concentrated, with search in general, and Google in particular, playing a substantial role in that market, limiting our flexibility to operate in this market.

In 2012, digital advertising continued to grow globally and in the United States in particular. Advertising through search accounted for the largest portion of digital advertising and in the United States accounted for approximately 47% of all money spent on digital advertising. Google as an advertising publisher accounted for over 40% of U.S. digital ad revenues. This high market concentration causes us to be subject to unilateral changes set by Google, with limited ability to respond to and adjust for those changes. While we utilize other methods of advertising and partnering with other companies, these are currently not as lucrative as search advertising in general and affiliation with Google in particular. Continued unilateral changes could adversely affect our revenues and performance.

The Internet as a medium for commerce and communication is subject to uncertainty and there could be a shift in communication platforms away from email.

The Internet and electronic communication industry is rapidly evolving, as new means for electronic communication are offered to the public. Our ability to execute our business strategy is currently dependent upon the continued predominance of email as a means of electronic communication and upon the continued use of the Internet.

Although we are in the process of diversifying our product portfolio, currently our email product, IncrediMail, generates approximately 33% of our revenues and provides a substantial part of our corporate brand recognition. In addition, although email software programs and services currently enjoy a large market, the development and consumer acceptance of other means of electronic communication, such as text messaging over phone networks, chat-boards, blogs and web-based social networks, have slowed the growth of the email market and could result in a substantial decrease in the size of this market, in which case our revenues could decrease and our products could become obsolete.

There is direct competition between web-based software and downloaded software.

There are various advantages and disadvantages to web-based software as compared to downloaded software. Currently, web-based software seems to be growing at a faster rate than downloaded software. While we are beginning to transition some of our products to a web-based platform, our business is currently reliant on the continued prevalence of downloaded software for revenues. A more dramatic shift to web-based software could cause a decline in our revenues.

The Internet and Internet companies are providing an increasing number of services for free.

Internet based companies have established a new trend and are providing an increasing number of services for free, including email clients and anti-spam software and services. A substantial part of our revenues comes from selling software products and services, currently accounting for approximately 29% of our revenues. While our sales have increased as a result of the acquisition of Smilebox and its products, if not for such acquisition, sales would have continued to decrease, partially as a result of such trend. Should this trend accelerate or even continue for a prolonged period, our revenues from product sales and services would decline, unless bolstered by additional products.

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 recently 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 or results of operations. Although these attacks, while causing certain difficulties, have not had a material effect on our business, financial condition or results of operations, there can be no assurance that such incidents will not have a material adverse effect on us in the future.

New laws and regulations applicable 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 and elsewhere and may impede the growth of the Internet or other online services. These regulations and laws may cover taxation, user privacy, data collection and protection, pricing, content, copyrights, electronic contracts and other communications, Internet advertising (including monitoring and tracking consumer behavior), consumer protection, the provision of online payment services, broadband residential Internet access, and the characteristics and quality of products and services.

Many areas of the law affecting the Internet remain largely unsettled, even in areas where there has been some legislative action. For example, there is a degree of uncertainty regarding the level of enforceability of various laws of countries in which our products are being used. This uncertainty can be compounded when services hosted in one jurisdiction are directed at users in another jurisdiction. Therefore, it is difficult to determine whether and how existing laws, such as those governing intellectual property, privacy and data collection and protection, libel, marketing, data security and taxation, apply to the Internet and our business. In February 2012, the Obama Administration unveiled a "Consumer Privacy Bill of Rights" (the "CPBR"). While the CPBR is not binding, the Obama Administration supports Federal legislation that will adopt the principles set forth in the CPBR. Even without legislation, the Obama Administration intends to initiate processes that use these rights as a template for codes of conduct that are enforceable by the U.S. Federal Trade Commission (the "FTC"). The U.S. Commerce Department prepared a report recommending a "framework" to protect people from a burgeoning personal data-gathering industry and fragmented U.S. privacy laws that cover certain types of data but not others. New laws and regulations may seek to impose additional burdens or restrictions on companies conducting business over the Internet. In Europe particularly, there is a major overhaul of the current European Data Privacy framework which appears more prescriptive and ambitious and, over the course of the next 12 months, we will begin to understand the impact of this new proposed regulation, which may demand further change in the way we conduct business and interact with our customers in Europe. With other national governments also taking steps to enshrine consumer rights (e.g., the U.K. government has proposals to consolidate all consumer protections into a single new "Consumer Bill of Rights"), the level of consumer protections we face as a business is set to increase. We are unable to accurately predict the nature of the limitations that may be imposed.

Certain laws and regulations in Israel have recently been adopted or amended, including without limitation, guidelines and requirements in respect of onward transfer, outsourcing, protection of personally identifiable information and employee related privacy restrictions in the workplace. Although we strive to comply with such requirements and guidelines, it is possible that such requirements and guidelines may be interpreted and applied in a manner that is inconsistent with our data collection and preservation practices.

There is currently also uncertainty in relation to the passing of relatively recent online laws. For example, legislation has been enacted to regulate the use of "cookie" technology. In Europe there is a patchwork of implementation and, in some countries there remains limited guidance defining good practice. Further, despite the expiration of deadlines for such implementation, some Member States are yet to implement the relevant Directive and bring their laws into compliance. Upon installation of our software, certain cookies generated by us and our advertisers are placed on our customers' computers. It has been argued that Internet protocol addresses and cookies are intrinsically personally identifiable information that is subject to privacy standards. We cannot assure you that our current policies and procedures would meet these restrictive standards.

Additionally, there is a significant possibility that the U.S. Congress may enact laws regulating the tracking of the Internet activity of individuals, even if no personally identifiable information is being collected. Currently, the Internet industry has been attempting to self-regulate in this area. However, to date, the industry has not developed a "do-not-track" standard. If "do-not-track" legislation is enacted, this could impact our ability to design a highly effective targeted advertising campaign, which could result in lower revenues derived from advertising.

The FTC recently published a Staff Report which proposes guidelines on privacy disclosures for entities in the mobile marketplace. Although the guidelines are not binding, they highlight privacy practices upon which the FTC places great importance. Considering the FTC's increased focus on privacy in mobile application, its recent enforcement actions, and its ongoing efforts to protect the privacy and personal information of mobile users, entities operating in the mobile marketplace may be impacted by future regulation in this area. We offer products with mobile capabilities which could be affected depending upon the scope of such legislation.

In addition, technology is changing constantly and data security regulations and standards are in a state of flux. Changes in law or regulations may require that we materially change the way we do business. For example, we may be required to implement physical, administrative and technological security measures different from those we have now, such as different data access controls or encryption technology. We use cloud based servers. Cloud computing 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. We may incur substantial expenses in implementing such security measures.

Although decisions of the U.S. Supreme Court restrict the imposition of obligations to collect state and local sales and use taxes with respect to sales made over the Internet, the U.S. Congress and a number of states have been considering or have adopted various initiatives that could limit or supersede these decisions. Some states have aggressively interpreted the necessary nexus required to impose sales taxes to include activities that were not previously taxable. If any of these initiatives results in a reversal of the current law or practice in this regard, we could be required to collect sales and use taxes on our U.S. sales. The imposition by state and local governments of various taxes upon Internet commerce could create administrative burdens for us and could decrease our future sales.

The European Union has already enacted legislation regarding Value Added Tax imposed on certain software sold by companies outside the European Union to consumers in the European Union over the Internet. This legislation could be interpreted to include certain parts of our business not yet accrued for by us causing additional significant tax exposure, or alternatively, reduce the competitiveness of the pricing of our products.

The cost of compliance with worldwide taxation, consumer data protection and privacy related laws and regulations could be material and we may not be able to comply with the applicable regulations in a timely or cost-effective manner. In response to evolving legal requirements, we may be compelled to change our business model and practices, which could reduce our sales, and we may not be able to replace the revenues lost as a consequence of the change. These changes could also require us to incur significant expenses, subject us to liability and require increased time and attention of our management. See "Item 4.B Business Overview — Government Regulation" for additional discussion of applicable regulations affecting our business.

Risks Related to Our Operations in Israel

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. Since the end of 2011, several countries in the region, including Egypt and Syria, have been experiencing civil unrest, political turbulence and violence which are affecting the political stability of those countries. This instability may lead to deterioration of the political and economic relationships that exist between the State of Israel and some of these countries. In addition, Iran has threatened to attack Israel and is widely believed to be developing nuclear weapons. Iran is also believed to have a strong influence among extremist groups in the region, such as Hamas in Gaza and Hezbollah in Lebanon. 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, negatively affected business conditions in Israel. Any hostilities involving Israel or the interruption or curtailment of trade between Israel and its present trading partners could have a material adverse effect on our business, operating results and financial condition. While 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. Any hostilities involving Israel or the interruption or curtailment of trade between Israel and its present trading partners could adversely affect our operations and could make it more difficult for us to raise capital. Furthermore, several countries, principally those in the Middle East, still restrict business with Israel and Israeli companies and, although the impact of these restrictions is not as important for a company such as ours that sells its products through the Internet, it may nevertheless have an adverse effect on our results of operations. Since many of our facilities are located in Israel, we could experience serious disruptions if acts associated with this conflict 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 or political instability in the region would likely negatively affect business conditions and harm our results of operations.

Our operations may be disrupted by the obligations of our personnel to perform military service.

All non-exempt male adult citizens and permanent residents of Israel under the age of 40, or older for reserves officers or citizens with certain occupations, as well as certain female adult citizens and permanent residents of Israel, are obligated to perform military reserve duty and may be called to active duty under emergency circumstances. In recent years, there have been significant call-ups of military reservists, and it is possible that there will be additional call-ups in the future. Many of our male employees in Israel, including members of senior management, are obligated to perform up to 36 days of military reserve duty annually until they reach the relevant age of discharge from army service and, in the event of a military conflict, could be called to active duty. While we have operated effectively despite these conditions in the past, we cannot assess what impact these conditions may have in the future, particularly if emergency circumstances arise. Our operations could be disrupted by the absence of a significant number of our employees related to military service or the absence for extended periods of military service of one or more of our executive officers or key employees. Any disruption in our operations would harm our business.

Investors and our shareholders generally may have difficulties enforcing a U.S. judgment against us, our executive officers and 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 upon 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 the United States, may be difficult to obtain within the United States.

Furthermore, because the majority of our assets and investments, and substantially all of our directors, officers and such Israeli 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 law 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 require us to meet several conditions and may be terminated or reduced in the future, which would increase our costs and taxes.

For the year ended December 31, 2012, our effective tax rate was 41%. We have benefited or currently benefit from a variety of government programs and tax benefits 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. Additionally, some of these programs and the related tax benefits are available to us for a limited number of years, and these benefits expire from time to time.

Any of the following could have a material effect on our overall effective tax rate:

- some programs may be discontinued;
- 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;
- upon expiration of a particular benefit, we may not be eligible to participate in a new program or qualify for a new tax benefit that would offset the loss of the expiring tax benefit; 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 10 to our consolidated financial statements.

Risks Related to our Ordinary Shares

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. If we do not pay dividends, you will generate a return on your investment only if our stock price appreciates between your date of purchase and your 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, 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 U.S. Securities and Exchange Commission ("SEC"), the provisions of the Israeli Securities Law that apply to dual listed companies (companies that are listed on the Tel Aviv Stock Exchange ("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 are required to have at least 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 review and evaluation of our internal control over financial reporting of the effectiveness of these controls by our management. There is no guarantee that these efforts will result in management assurance that our internal control over financial reporting is adequate in future periods. In connection with our compliance 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 may need to hire additional accounting and financial staff, to assure that we continue to comply with these requirements. The additional management attention and costs relating to compliance with the foregoing requirements could materially and 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 were to 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 this status, we would be required to comply with the reporting and other requirements applicable to U.S. domestic issuers, which are more detailed and extensive than the requirements for foreign private issuers. The regulatory and compliance costs to us under U.S. securities laws, if we are required to comply with the reporting requirements applicable to a U.S. domestic issuer, may be significantly higher than the cost we currently incur as a foreign private issuer.

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 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 difficult an acquisition of our Company, 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 classified 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.

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

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. In addition, although our executive officers and directors have certain limitations regarding how and when they may trade our securities, neither they nor relatively large shareholders are subject to contractual restrictions on the sale by them of shares, resulting in a substantial number of shares held by them in the public market. 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.

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 Market ("NASDAQ") and on the TASE. Trading in our ordinary shares on these markets is effected in different currencies (U.S. dollars on NASDAQ and NIS on the TASE) and at different times (resulting from different time zones, different trading days and different public holidays in the United States and Israel). Consequently, the trading prices of our ordinary shares on these two markets 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.

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. and changed our name to Incredimail Ltd. in November 2000. In November 2011, we changed our name to Perion Network Ltd., to better reflect the diverse nature of our business. We operate under the laws of the State of Israel. Our headquarters are located at 4 HaNechoshet Street, Tel-Aviv 69710, Israel. Our phone number is (972-3) 769-6100. Our website address is www.perion.com. The information on our websites does not constitute a part of this annual report.

We completed the initial public offering of our ordinary shares in the United States on February 3, 2006, whereby we became a "limited liability public company" under the Companies Law.

Since November 20, 2007 the Company's ordinary shares are also traded on the Tel Aviv Stock Exchange.

On August 31, 2011 we completed the purchase of Smilebox Inc., a Washington corporation, through our Delaware subsidiary.

On November 30, 2012 we completed the purchase of SweetIM Ltd., a Belize company that wholly owns SweetIM Technologies Ltd., an Israeli company. See "Recent Developments" below.

Principal Capital Expenditures

We had capital expenditures of $45.7 million in 2012, $32.7 million in 2011 and $0.9 million in 2010. We currently expect that outside of possible acquisitions of products and companies, our capital expenditures will be approximately $1.5 million in 2013. To date, we have financed our general capital expenditures with cash generated from operations.

Our capital expenditures during 2010 consisted primarily of leasehold improvements and furnishings, as well as investments in computer hardware and software, in Israel. In 2011, capital expenditures consisted of $31.5 million for the acquisition of Smilebox and $1.2 million for investment in computer hardware and software, leasehold improvements and furnishings. In 2012, capital expenditures consisted of $44.2 million in connection with the acquisition of SweetIM Ltd., and $1.5 million for investment in computer hardware and software, leasehold improvements and furnishings.

In 2013, we expect to continue our growth strategy for acquiring products and businesses', in addition to organic capital investments. Our organic investments are expected to consist primarily of acquiring computer hardware, software, peripheral equipment and installation, all which are expected to be financed by our existing resources. 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 securities or debt.

Recent Developments

On November 7, 2012 we signed a definitive agreement to acquire SweetIM Ltd., a Belize company that wholly owns SweetIM Technologies Ltd., an Israeli consumer internet company, or SweetIM. SweetIM produces a variety of free, fun, easy to use and safe applications and downloadable content for everyday use under the "SweetPacks" trade name.

SweetIM produces a selection of innovative products designed to enhance the user's digital experience, having reached already over 150 million users and providing them with a creative outlet for online expression. SweetIM started with the 2005 launch of a single product, the SweetIM application, and subsequently broadened its offering of emoticons and animations for online chat and communications. Utilizing SweetIM's simplicity and ease of use, SweetIM now offers an impressive collection of products, which can be applied to other daily online tasks, from synchronizing multiple online accounts and a highly accurate translation tool, to maximizing PC performance and a wide range of free premium games.

SweetIM earns revenues from generating searches and sharing in the revenues with the provider of the search engine, as well as from traditional digital advertising. Under the terms of the agreement, we paid $10.0 million in cash and 1.99 million of our ordinary shares at closing, which occurred on November 30, 2012. A second payment of up to $7.5 million in cash is due 12 months after closing, and a third payment of up to $7.5 million in cash is due 18 months after closing, subject to certain achievements being met.

We have moved SweetIM's operations, with its approximayely 50 employees, to the Company's headquarters.

On January 31, 2013, we signed an amendment to our agreement with Google extending the term of the agreement to May 31 2013, to coincide with the expiration date of the agreement between SweetIM and Google. On April 23, 2013, we entered into a new agreement with Google, effective from May 1, 2013 to April 30, 2015. The new agreement combines the activities of Perion and SweetIM into one agreement and replaces both of the existing agreements with Google.

B. BUSINESS OVERVIEW

Overview

We are a global consumer internet company that develops applications to make the online experience of our users simple, safe and enjoyable. Perion's three main consumer brands are: IncrediMail, Smilebox and SweetIM. IncrediMail is a unified messaging application enabling consumers to manage multiple email accounts and Facebook messages in one place with an easy-to-use interface and extensive personalization features, and is available in over 100 countries in 8 languages; Smilebox is a leading photo sharing and social expression product and service that quickly turn life's moments into digital keepsakes for sharing and connecting with friends and family, in a fun and personal way. SweetIM is an instant messaging application that enables consumers to personalize their everyday communications with free, fun and easy to use content.

All of our products were initially offered for use on desktop computers. As a result of the increased use of mobile platforms over the last couple of years, we have begun to develop and market some of our products on mobile platforms as well. This effort saw its first major results with the introdution of Smilebox for the iPhone, which has already been downloaded over 1.2 million times. In March 2013, we introduced IncrediMail for the iPad, which registered, in its first month, over 200,000 downloads. We continue to develop additional versions of these products for additional mobile platforms.

In the past, we devloped and marketed PhotoJoy, a photo presentation application, both for the desktop and mobile platforms, as well as Fixie, our PC optimization tool. The marketing and continued devlopment of these products has been suspended until we can identify monetization models that justify continued development. Most of our applications are monetized through a "freemium" model. Free versions of our applications are monetized primarily through our toolbar which generates search revenue and display advertising revenue, generated through impressions. A more advanced feature-rich version of many of our products is available for a subscription or fee. We also offer and develop a range of products for mobile phones and tablets to answer our users' increasing mobile demands.

In 2012, we sold 414,000 products, content licenses and subscriptions to our registered users worldwide. We believe that our historical track record of converting registered users to purchasing customers represents a convincing validation of our business strategy.

For a breakdown of total revenues by category of activity, see "Item 5.A Operating Results — Revenues."

In the past we relied primarily on "viral marketing" to increase our user base. Our "viral marketing" has resulted from recipients of our users' emails clicking on the link at the bottom of emails sent with *IncrediMail Xe,* an instant message enriched by SweetIM content, or receiving digital photo creations from friends and relatives created by our Smilebox software, and then downloading our products and also from word of mouth. Since the middle of 2011 while viral marketing still contributes to our growth, we are investing increasing sums in advertising to accelerate our growth as the effectiveness of our viral marketing declines. Our revenues were $29.5 million in 2010, $35.5 million in 2011 and $60.2 million in 2012. Our operations have been profitable since 2002, with a gross profit margin of at least 90%.

When we use the term "registered user" in this annual report, we mean a user who has downloaded at least one of our products and completed the registration process. Registrations are not necessarily indicative of the number of individuals using our products or services, as a user may register more than one time and a particular product or service may be resident on a computer but not actually be used. In addition, the term "active user" as used in this annual report means a registered user whose computer we can communicate with in order to verify if any of our products are resident on such computer, in the 30 days prior to the applicable measurement date.

Our Markets

Our user base. Our products ideally service "second wave adopters", characterized by typically being above 40 years old, looking for computer applications that assist them in effectively utilizing their time and that are simple, safe and useful. Based on our internal statistics and in-depth consumer research contracted by us, we have learned that, approximately 95% of our users are 35 years old or older and approximately 80% are 45 years old or older. In addition, our users do tend to adopt technology later in its life cycle, rather than earlier.

Our Opportunity. We believe we are one of the few hi-tech companies that target this unique demographic segment, rather than offering the latest technology to younger audiences. Our opportunity is to offer this demographic segment software that is simple safe and useful, enabling them to better utilize their time, as we have done successfully with our email client and photo sharing software. We believe this is a substantial and underserved market.

Productivity tools. We are actively seeking to enrich our product suite to include other consumer products that bear similar characteristics appealing to our unique demographic segment. We believe our communication client Incredimail, digital photo product Smilebox and our instant messaging tool SweetIM, have these characteristics and will appeal similarly to our user base. Based on our consumer research, we will seek to offer our users, in addition to these products, other tools in the areas of safety and security in the PC environment, personal productivity, and other areas.

Our Strategy

Our objective is to become the market leader and a reliable provider of consumer applications for second wave adopters seeking products that are simple and safe, helping to make their everyday online tasks more enjoyable. To achieve this goal, we intend to enhance our existing business and extend it beyond that by way of acquisitions.

To enhance our existing business, we intend to:

- invest in consumer insight enabling us to identify the specific needs of our targeted demographic segment;
- continue and further increase our customer acquisition costs;
- broaden the platform for our applications, embracing mobile platforms; and
- develop a more robust product line.

By investing in consumer research, we are able to better identify the specific needs of our targeted demographic segment. In addition, if in the past, we had predominantly relied on the viral spread of our applications, since 2012 we have invested increasing sums in customer acquisition for increased market penetration for our products. Employing this strategy for acquiring customers has been enabled by our back-end systems recently developed and constantly being improved. As users increase their mobile Internet interaction, which have been to a certain extent at the expense of their desktop activity, it is becoming increasingly important for us to establish a mobile presence in general and for our existing suite of products in particular. To that end, we introduced a mobile version of our Smilebox application for the iPhone in 2012 and introduced our IncrediMail email client for the iPad in the first quarter of 2013 Finally, in order to reduce our dependency on a limited number of products and to better serve our users and their needs, we intend to continue to enrich and expand our product suite.

In order to grow our business beyond organic growth and accelerate our ability to bring new products to our users, we have adopted a strategy to invest in acquiring other products and extend the business. This strategy has resulted in the acquisition of Smilebox Inc. in 2011 and SweetIM Ltd. in 2012. This strategy will enable us to further diversify our revenue base, better serve the needs of our users and reduce the time required to bring these new products to market.

By focusing on our consumer and enhancing and extending our business, we believe we will be able to further grow our business by:

- *Growing our user base.* Our effective viral marketing has resulted in millions of registered users who spread the word about our products and services at relatively low marketing costs to us. On top of that, since 2012, in order to accelerate our growth we have invested heavily in acquiring new customers, who may also contribute to viral growth to a certain extent.
- *Increasing the use of our products by our users.* By focusing on our consumers and their needs, we believe we can increase the use of our products and subsequently the searching capabilities offered to them, thereby increasing our search generated revenues.
- *Enhancing product offerings and increasing user sales.* Since the acquisition of Smilebox in 2011, our product sales have increased, more than offsetting a decrease in premium revenues from our *IncrediMail* communication client. We believe the offering of our products on mobile platforms will serve to increase product revenues in the future. In addition, we believe that another result of our consumer research will be to identify the premium products and services sought by our users. Although we believe that a majority of our revenues will continue to be generated by advertising in general, and search generated revenues in particular, we believe that there remains a real opportunity to grow our premium product sales significantly.
- *Enhancing the consumer experience.* We have always attempted to provide a positive experience to our users. As we further emphasize this aspect, we will continue to design our products and services and market them to address users' aversion to offensive Internet marketing tools, which we believe encourages more use of our products and increases user loyalty.
- *Continuing to focus on the online consumer market.* Email remains a prominent communication medium and sharing digital photo creations has become a popular way of expression. We have enhanced our email client so that it incorporates the users' Facebook feeds, and will look in the future to embrace other methods of communication. In addition, we have begun incorporating new platforms for sharing photos, such as iPhones, and introduced our IncrediMail product for the iPad in the first quarter of 2013. We intend to broaden this offering by enabling other platforms, such as Android and Windows Mobile, as well. The Internet and the application stores available enable us to reach potential users throughout the world quickly and easily as well as reduce the costs associated with sales and distribution of our products and services.

As a result of our in depth consumer research and the success of our communication client, we have found that our products address an underserved market of later technology adapters. We have found that these consumers are looking for simple, safe and useful products that assist in better utilizing their time. We intend to address this unique market segment, which is the largest growing audience online today, by further adapting our products to better address their evolving requirements as well as offering them other products and services that they use frequently and address similar needs. This market segment of roughly 300 million people is currently underserved as it is not targeted by the new technology companies that are targeting early hi-tech adapters, or by the large conglomerates that seek to service horizontally the general public, rather than a specific vertical demographic. We believe that we, on the other hand, with our successful experience with our IncrediMail email client, are well equipped to address these needs. We have decided to focus on three basic needs for our consumers: communications, photo sharing and safety and security. These are all areas that our research indicates are frequently used by our audience online (e.g., more than once a month and often multiple times a week) and are related to each other. Communications which is staple for anyone online today, includes sharing photos and other information and attachments, and unfortunately given its very nature and ubiquity this same communication platform is the biggest cause of viruses and malware for one's computer as hackers and criminals use the trust of a friend and the delivery mechanism of photo sharing and email to launch cyber security attacks.

Search generated revenues

We offer our users the ability to search by collaborating with premium search companies, primarily Google Inc., and we receive a portion of the revenues generated by these companies through the search process.

Given the new size of our combined operations, which nearly doubled as a result of the acquisition of SweetIM, we should be able to benefit from the increase in scale. Google's coverage and service offering is the one most suited to our global distribution and provides the best monetization opportunity for our products. Nonetheless, we continue to explore opportunities to work with other search providers. As part of this effort, on February 6, 2013 we announced a new distribution agreement with Microsoft's search engine, Bing. The addition of Bing will enable us to diversify our search generation revenues and reduce somewhat our prior sole source dependency on Google.

Other advertising and other revenues

We utilize the distribution of our products and their presence in the user's desktop computer to generate other advertising revenues from methods such as display ads and banners, as well as for generating revenues by collaborating with other companies to offer their products to those that download our products.

For a breakdown of total revenues by category of activity, see "Item 5.A Operating Results — Revenues."

Our Products

Our products are currently available in seven languages in addition to English. Prices and license fees for our premium products range between $5 and $40, varying based on market, length of license period and whether the products are offered together. We offer the following products, all of which may be downloaded over the Internet through a personal computer running on a Microsoft Windows operating system:

Communication vertical:

- *IncrediMail* is our communication client, available over the Internet it its basic version free of charge, used for managing email messages and Facebook feeds, with many graphic and personalizing capabilities. However, most important is that it is safe, simple and easy to use. The premium version of this software offers, for an annual subscription fee, VIP support and enhanced graphic capabilities, as well as advanced anti-spam software for a separate annual subscription.

  In March 2013, we introduced IncrediMail for the iPad. IncrediMail for the iPad is one of the first email applications truly adapted for touch-screen devices. It redesigns the inbox, unifies multiple email accounts, creates a photo inbox from friends and family Facebook photos, and elevates messages so their contents can easily be seen by users at a glance, in an intuitive "magazine-by-touch" format.

- *SweetIM* is free downloadable and easy to use software that enables users to enhance their messaging experience and express themselves in creative ways across online platforms, such as messenger, email, etc.

Digital photo vertical:

- *Smilebox* is an Internet photo sharing service available for the desktop and smart-phone.

    - On the desktop, Smilebox can be used both on the PC and the Mac, making it easy to create digital creations from personal photos using a range of digital designs including invitations, greetings, collages, scrapbooks, photo albums and slideshows. These creations can then be shared free of charge via email, Facebook, Twitter, Print, DVD or photo frames. Revenues are generated from subscriptions for premium content and features, advertising from creations that are shared for free, printing revenues from creations that are printed to store or printed and shipped to home and search revenues for consumers that elect to have Smilebox provide their default search results.

    - Smilebox is also available free of charge for the iPhone, making it easy to personalize and share photos in real time, directly from the device. Personalization options include captions, stickers and frames, and sharing options include email, Facebook and SMS.

Products under Development

Our research and development activities are conducted internally with a 117 person research and development staff. Our research and development efforts are focused on the development of upgraded software and, new features and enabling new platforms for our existing product suite.

In 2012 we increased our development investment effort, focusing on enhancing our product pipeline in general and on mobile platforms in particular. These efforts produced the mobile Smilebox application for the iPhone this year, and our IncrediMail email client application for the iPad released in the first quarter of 2013 We intend to continue this effort in 2013 by introducing additional products and focusing on adapting our existing products for use on mobile platforms, including the iPhone, iPad, Android and possibly Windows Mobile platforms as well. In addition, we intend to continue enhancing our back-end systems, supporting our analytical capabilities and our growth, as well as developing an ad-serving platform enabling us to significantly increase our non-search advertising revenues.

Sales, Marketing and Distribution

Our products are distributed and sold throughout the world in more than 100 countries. The following table shows the search generated revenues and products sold by territory in 2012: (*)

	Search Generated Revenues	Product Revenues
Tier 1	47%	84%
Tier 2	35%	8%
Tier 3	18%	8%

(*) Tier 1: United States, Canada, United Kingdom & Australia; Tier 2: France, Germany, Italy, Spain, Netherlands, Belgium, Switzerland; Tier 3: Other

As of December 31, 2012, we had 50 employees in our sales and marketing department.

Seasonality

In the past we relied mainly on "viral marketing" to increase our user base. However, since 2011 we have been significantly increasing our investment in marketing with customer acquisition efforts aimed at accelerating our growth. This has brought dramatic growth in the number of downloads, registered users, and as a result, revenues in general and search generated revenues in particular.

We have typically experienced stronger product sales in the first and fourth quarters, principally because our products are purchased in holiday sales in December or in the after-holiday sales in January. This is especially so regarding our Smilebox photo-sharing software. This is in addition to the general seasonality of the Internet as well as e-commerce being more active in the winter months. In recent years, as search generated revenues accounted for a growing and more dominant portion of our revenues, the seasonality of our revenues has decreased. The more product sales we have as a portion of our total sales, the greater the seasonality.

Intellectual Property

We rely on a combination of patent, copyright, trademark and trade secret laws and confidentiality and invention assignment agreements to protect our intellectual property rights. However, we do not currently believe that they provide a significant competitive advantage.

Most of the components of our software products were developed solely by us. We have licensed certain components of our software from third parties. Except for our agreements regarding anti-spam software and some of our content licenses, most of these licenses entailed a one-time fee or are "freeware". We believe that these components are not material to the overall performance of our software and may be replaced without significant difficulty.

In July 2006, we were granted a patent in the United States entitled “System and Method for Visual Feedback of Command Execution in Electronic Mail Systems”.

In 2012, the Israeli Patent Office issued a patent corresponding to that U.S. patent.

In 2012, we were granted a patent in the United States entitled "Interactive Message Editing System and Method". A corresponding application is still pending in China.

In 2012, we filed two patent applications, one in Israel entitled “A Method and apparatus for Sharing Personalized Homepage with a Plurality of Users”, and the other in the United States entitled “A Method for Displaying E-mail Messages to a User”. In February 2013, we filed a corresponding patent application to the Israeli application in the United States.

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

We have registered: (i) "Perion" as a trademark in Israel and are in the process of completing the registration of "Perion" in the United States and the European Community (a community Trademark); (ii) "IncrediMail" and "PhotoJoy" as trademarks in the United States, the European Community (a community Trademark) and China; (iii) “Smilebox Teeth Design” in the United States; (iv) “Smilebox” in Australia, Canada, China, France, Germany, Japan, Korea, United Kingdom and the United States; and (v) "SWEETPACKS" and "SWEETIM" in the United States.

We have pending trademark applications of “Perion” in the United States and the European Community (a community Trademark). Of which the application in the United States has already been allowed.

All employees and consultants are required to execute confidentiality covenants in connection with their employment and consulting relationships with us. In addition, our consultant agreements contain assignment and waiver provisions relating to consultant rights in respect of inventions. However, there can be no assurance that these arrangements will provide us with adequate protection. Although our employment agreements contain assignment and waiver provisions relating to employee rights in respect of inventions created within the course of their employment with us, including in respect of "Service Inventions", as defined under the Israeli Patents Law, 5727-1967, we cannot guarantee that such waiver of rights to receive compensation for Service Inventions will be upheld by Israeli courts, due to a recent ruling by the Israeli Supreme Court which left the validity of such a waiver to further judicial review.

Competition

The vertical markets in which we are active are subject to intense competition. Our products compete in the specialized market for email software products, digital photo services, and utility toolbars. In addition, we compete with many other companies offering search services and other software in conjunction with changing user’s default search provider.

Perion was among the first companies to offer to the consumer email market a solution that combines an easy to use and intuitive email product with a gallery of creative content. Providing this kind of solution and compiling content is a lengthy process and based on a prolonged relationship with our users, and we have been doing it since 2000. We believe we have established ourselves with our unique demographic segment, as a provider of solutions answering to these needs, and we believe that we have as such an advantage over many of our competitors.

In the digital photo sharing space, our Smilebox product is unique in that it is the only service that enables consumers to create a complete range of digital creations that can be shared electronically via email, Facebook or Twitter complete with music, interactivity and animation or physically via print, DVD or photo frame. Smilebox is unique in personalizing the photo sharing experience on smart-phones, by easily enabling the user to personalize their photos with content, and which can then be shared in a way that is personal via email, SMS or Facebook.

Our ability to compete effectively depends upon our ability to distinguish our Company and our products from our competitors and their products, and includes the following factors:

- the simplicity of use
- product quality;
- product pricing;
- the creativity, variety and volume of content accessible through our software;
- success and timing of new product development and introductions;
- maintaining our reputation for safe and reliable products; and
- development of successful marketing channels.

With respect to our communication products, we have competition on both the desktop and the mobile platforms. On the desktop, our main competition is with web-based email software products, such as Google's Gmail, Yahoo!'s Mail and Microsoft's Hotmail, each providing solutions that don't require the download of an email client. On the mobile platforms, we see competition from alternative email clients, such as Mailbox, Inky, Mailbird and Sparrow. The web-based and mobile email market is characterized by significant competition, changing technologies and evolving product and service enhancements.

Google, Yahoo! and Microsoft each offer a web-based e-mail service in addition to the many other services they provide, such as desktop search, local search, instant messaging, photos, maps, video sharing, mobile applications, and so on. We expect these competitors to increasingly use their financial and engineering resources to compete with our client-based e-mail service, and if we are unable to successfully compete with them, our results of operations may be adversely affected.

In addition, there is some competition in the area of downloadable email clients, such as WikMail, Arcsoft Multimedia Email 3 and Mind Spark Products. In addition, our products also face competition from general email software programs offered to the private market by large Internet and software companies, such as AOL9 by America Online, Inc., Eudora by QUALCOMM Incorporated (NASDAQ: QCOM), Thunderbird by Mozilla Corporation and Outlook Express by Microsoft Corporation (NASDAQ: MSFT), some of which may also incorporate certain special features that provide a personalized email experience, some of them offering creative graphic backgrounds, such as Yahoo! Mail. Many of the large Internet and software companies offer their email software programs free of charge. Competition with these products, reliance on viral marketing and technical difficulties have resulted in a reduction of the number of downloads, market share, prices and margins.

In the mobile space, some of these applications offer more advanced utility features, leveraging this for broader distribution.

Many of our competitors have more established brands, products and customer relationships than we do, which could inhibit our market penetration efforts even if they may not offer a solution that is as simple to use, or that provides a customized and entertaining email experience similar to *IncrediMail*. For example, consumers may choose to receive an extensive package of Internet and email services from a more dominant and recognized company, such as Microsoft Corporation (Outlook Express) or America Online, Inc. (AOL). If we are unable to achieve continued market penetration, we will be unable to compete effectively.

With respect to our Smilebox photo sharing product, Smilebox competes broadly within the photo services category. Competition includes America Greetings and Hallmark from the greetings category, Shutterfly, and Snapfish from the photo products category and services like Flikr, Facebook and Instagram in the social photo sharing category.

In addition, as a major part of our revenues stem from our offering of search properties, we compete with the search engine providers themselves such as Google, Bing and others. In addition, we compete with many other companies offering consumer downloadable software, albeit totally different software, utilizing the same strategy, to offer their search properties, such as Interactive Corporation, AOL, AVG Technologies, Babylon and others.

Finally, many of our current and potential competitors have significantly greater financial, research and development, back-end analytical systems, manufacturing, and sales and marketing resources than we have. These competitors could use their greater financial resources to acquire other companies to gain 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 product lines and search service. Demand for our products and search services could be diminished by products, services and technologies offered by competitors, whether or not their products and technologies are equivalent or superior.

Government Regulation

The United States, the United Kingdom, the European Union, Israel and other jurisdictions have adopted laws that could have an impact on our business, including the ones described in this section.

There are still relatively few laws or regulations specifically addressing the Internet. In some instances, in the European Union particularly, those that have been implemented are dating rapidly as online practice (and particularly social commerce and the extent of online interaction and communication) evolves. As a result, the manner in which existing laws and regulations should be applied to the Internet in general, and how they relate to our business in particular, is unclear in many cases and varies from county to country. Such uncertainty arises under existing laws regulating matters, including user privacy, defamation, access changes, "net-neutrality" pricing, advertising, taxation, gambling, sweepstakes, promotions, content regulation, quality of products and services, and intellectual property ownership and infringement.

To resolve some of the current legal uncertainty, it is possible that new laws and regulations (and associated guidance) will be adopted that will be directly applicable to our activities. Any existing or new laws, regulations or legislation applicable to us could expose us to potential liability, including significant expenses necessary to comply with such laws and regulations, and could dampen the growth in use of the Internet in general. In connection with this, some of the countries in which we operate have increased their enforcement of local laws and therefore the potential impact of failing to comply with local and international legislative requirements has increased significantly.

When users visit our website or install and use our software, certain "cookies" (pieces of information sent by a web server to a user's browser) may be generated by us and third parties with whom we cooperate, including our advertisers, and may be placed on our customers' computers. While we believe that our use of cookies does not result in personal identification, it has been argued that Internet protocol addresses and cookies are intrinsically personally identifiable information that is subject to privacy standards. In addition, the impact of new regulation in the European Union is that, regardless of personal identification via cookies (or any similar devices), there are now obligations to inform consumers how cookies are used and to provide information about cookies. Unless limited exceptions apply, we will now only be able to place a cookie on terminal equipment where the user or subscriber has given their consent. We cannot assure you that our current policies and procedures will meet these restrictive standards, but we will continue to assess our use of cookies, and where necessary, work with third parties serving cookies via our websites and take steps to provide transparency, as well as assess which solution for obtaining user consent will be most appropriate. The compliance situation is compounded as not all of the E.U. legislation is currently in force and there are likely to be a number of variations in the approach and regulations. Today we have limited technical or operational capability to vary our website or practices on a country to country basis. There are no specific laws restricting the use of such cookies in the United States. While some courts there previously questioned whether placement of cookies on a user's hard drive is permissible without the user's consent, to the best of our knowledge no liability has been found.

Our approach to privacy and data protection compliance includes both technological solutions and a focus on employee awareness and behavior. We post our privacy policy and practices concerning cookies and the use and disclosure of user data on our websites. Our websites inform users through our privacy policy what information we collect about them and about their use of our services. As mentioned above, in the European Union at least, it is likely that further transparency and consent will be required in connection with some of our activities which use cookies and similar technologies. We also provide users with the opportunity to opt out of receiving certain communications from us.

Any failure by us to comply with our posted privacy policy, FTC requirements or other domestic or international privacy-related laws and regulations could result in proceedings by governmental or regulatory bodies that could potentially harm our business, results of operations and financial condition, or result in private civil actions for damages and equitable relief. In addition, abuse by third parties of the data we collect could potentially subject us to liability. In addition, the negative public perception, potential reputational damage and associated public concern over privacy practice may equally impact our business in the event of any adverse publicity around failure to comply or any regulatory investigation into our practices.

In this regard, there are still a large number of legislative proposals before the European Union, as well as before the U.S. Congress and various state legislative bodies, regarding privacy and other issues related to our business. Other jurisdictions could also adopt laws and regulations that could adversely impact our company and business. It is not possible to predict whether or when such laws, regulations and legislation may be adopted, and certain proposals, if adopted, could harm our business through a decrease in user registrations and revenues. These decreases could be caused by, among other possible provisions, the required use of disclaimers, mandatory consents or affirmations or other requirements before users can utilize our services.

Israel

Our database, which includes a database of registered users, falls within the definition of a database that requires registration under the Israeli Protection of Privacy Law of 1981 (the "Privacy Law"). Maintaining a database other than in compliance with the Privacy Law may subject the owner, holder, manager and operator to criminal liability and civil liability. We registered our database with the Data Base Registrar on June 21, 2004.

In addition to the registration obligations under the Privacy Law, the Privacy Law also determines that any request for information should be accompanied by a notice that indicates: whether a person is legally required to expose such information, or that such exposure is subject to such person's own will and consent; the purpose for which the information is requested; and to whom the information is to be delivered and for what purpose. The law also determines that any person is entitled to inspect any information about him which is kept in a certain database. It should be stated that violating such requirements can result in imprisonment. The Privacy Law stipulates that an infringement of privacy is a civil wrong action, and authorizes the court to set compensation of NIS 50,000 (approximately $14,000) without proof of injury. The database registrar has been granted with wide authorities in event of violation of the provisions of the law, such as canceling the registration of a certain database.

The Israeli Copyrights Law of 2007 (the "Copyrights Law") protects, among others, artistic works, as well as sound recordings and computer programs, foreign work and moral rights (the right of paternity and the right of integrity). The Copyrights Law sets forth the amount of compensation that a court may award to a claimant without proof of injury, for each copyright or moral right infringement, at NIS 100,000 (approximately $27,000).

On December 1, 2008, Amendment No. 40 to the Israeli Communications Law (Transmissions and Broadcasting) of 1982 (the "Israeli Anti-Spam Law") came into effect. The Israeli Anti-Spam Law prohibits dissemination of commercial e-mail advertisements, as well as other forms of electronic advertisements, without the recipient's prior express consent. The Israeli Anti-Spam Law applies equally to entities themselves offering goods or services and entities distributing electronic advertisements on their behalf. Consent may be obtained in writing, by electronic message or recorded conversation. Advertisers may make a single contact with business recipients in order to solicit such consent. Recipients may revoke their consent at any time, either in writing or in the same medium used to transmit the advertisement. It is permitted to distribute commercial promotional electronic advertisements without prior recipient consent where all of the following conditions are met: (i) the recipient provided his contact information to the advertiser in the course of purchasing goods or services or negotiations for the purchase of goods or services, and the advertiser provided notice that the details so provided would be used for purposes of disseminating such advertisements; (ii) the advertiser provided the recipient the opportunity to refuse to receive such advertisements, either generally or of a particular type, and the recipient did not do so; and (iii) the advertisement relates to goods or services similar to those described in (i) above. In addition to the consent requirements described above, the Israeli Anti-Spam Law requires that all electronic advertisements include a clear, conspicuous notice containing: (i) identification of the message as an advertisement (for email communications, the word "advertisement" must appear in the email subject line; in all other electronic advertisements, such identification must appear in the beginning of the advertisement); (ii) the advertiser's identity and contact information; and (iii) notification of the recipient's right to opt out of receiving such advertisements and means for opting out (including an email address for email advertisements). Violations of the Israeli Anti-Spam Law may carry criminal and civil penalties. Advertisers who disseminate advertisements in violation of the law are subject to a fine of approximately NIS 226,000 (approximately $54,000). Failure to comply with the mandatory notice provisions carries a fine of approximately NIS 75,300 (approximately $18,000). Managers and individuals working for the advertiser who are responsible for marketing or promotions and who do not take sufficient measures to ensure compliance with the law may be personally liable for violations of the law and may be subject to a fine of approximately NIS 75,300 (approximately $18,000). There is a statutory presumption that any illegal spam that was sent was sent knowingly, unless proven otherwise. This statutory presumption of knowingly delivering illegal spam cannot even be challenged under certain instances (such as repeat offenses or distribution to a randomly selected list of addresses). The Israeli Anti-Spam Law also creates a private right of action for violations; in addition to other compensation to which recipients may be entitled, the court is authorized to award statutory damages of approximately NIS 1,000 (approximately $300) per email received in knowing violation of the law. There are also provisions for punitive damages as well as civil tort liabilities. In addition, the Israeli Anti-Spam Law provides for certifying claims against advertisers who violate the Israeli Anti-Spam Law as class-action lawsuits. In light of the fact that we are headquartered in Israel and have Israeli customers, we are challenged by these rules with respect to our email campaigns, and non-compliance would expose us to potential fines and sanction, civil tort claims, as well as potential reputational damage.

United States

The U.S. CAN-SPAM Act of 2003 is intended to regulate spam and create criminal penalties for unmarked and unsolicited email advertisements, sexually-oriented material and emails containing fraudulent headers. The U.S. Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, or the Patriot Act, is intended to give the government greater ability to conduct surveillance on the Internet by allowing it in certain cases to intercept communications regarding terrorism and compromises to national security. The U.S. Digital Millennium Copyright Act ("DMCA") is intended to reduce or shield the liability of online service providers for displaying content posted and created by third parties that contain copyright infringing materials, if the provider complies with certain policies, registers a DMCA agent with the U.S Copyright Office and adopts a "take-down" policy that is enforced. We offer such online provider services where our users can share images and other user-generated content. While the DMCA has provided relatively strong protection to providers from claims of copyright infringement based upon user-generated content, there have been some recent cases and actions that attempt to erode these protections. Therefore, to the extent that the immunity provided by the DMCA weakens, we could face the potential for claims of copyright infringement based upon such content.

The Children's Online Privacy Protection Act of 1998, and the Prosecutorial Remedies and Other Tools to End Exploitation of Children Today Act of 2003 ("COPPA"), are intended to restrict the distribution of certain materials deemed harmful to children and impose additional restrictions on the ability of online services to collect user information from minors without verifiable parental or guardianship consent. In December 2012, the FTC issued new rules under COPPA that strengthen existing restrictions on the online collection and use of personal information about children under the age of 13. The new regulations will have a significant impact on the operation of websites, applications, plug-ins, and other online services and may make it more difficult to provide online content directed toward children. Because of the nature of our business includes, among other things, the placement of cartoon "emoticons" in emails, we anticipate that our services could attract a significant number of users who would fall into the regulated class. Accordingly, our business could be adversely affected by the new rules. In addition, the Protection of Children from Sexual Predators Act of 1998 requires electronic communication service and remote computing service providers to report to law enforcement agencies any knowledge of facts or circumstances from which a violation of specified offenses involving child pornography is apparent Because our services enable users to upload photographs to the internet and share them with others, we could be subject to liability unless our procedures adequately identify and report such violations of the law.

Almost all the states in the United States have data security breach laws that impose various requirements on service providers to report to state attorneys general and send notices to affected consumers in the event of a breach of security of network and computer systems that compromise a user's personal financial and other information, such as social security numbers and financial information.

In addition, some state laws govern internet activity generally. For example, the California Online Privacy Protection Act which applies to any Internet website and mobile application that can be accessed or downloaded by California residents regulates information collected about users. The Massachusetts Office of Consumer Affairs and Business Regulation established data security regulations (201 CMR 17.00 et seq.) which became effective on March 1, 2010. They require any company which possesses the personal information of a Massachusetts resident to adopt and implement a comprehensive written information security program. The program must include technical, physical, and administrative safeguards for the protection of personal information owned, licensed, received, stored, maintained, processed, or otherwise accessed by the company. State legislation could require us to modify our business practices and could potentially subject us to liability.

The Stop Online Piracy Act (SOPA) was introduced in Congress in 2012 to expand the ability of U.S. law enforcement officials to fight online trafficking in copyrighted intellectual property and counterfeit goods. Provisions include the requesting of court orders to bar advertising networks and payment facilities from conducting business with infringing websites, and search engines from linking to the websites, and court orders requiring Internet service providers to block access to the websites. While SOPA was not passed by Congress due to overwhelming public opposition, substitute legislation is being proposed, and if passed, could impact content sharing on our products and increase administrative costs that would be incurred to comply with the law.

United Kingdom and European Union

The U.K. Data Protection Act and similar European Member State implementations of the European Union Data Protection Directive establish a core framework of rights and duties which are designed to safeguard personal data processed within the European Union. There are other ancillary and related laws and regulations across the European Union which combine to create an extensive regulatory regime. The core data privacy framework is underpinned by a set of eight straightforward principles which we must apply to safeguard personal data. Any failure to ensure that personal information is processed in accordance with these principles could result in criminal or civil penalties as well as potentially damage our customers. E.U. data protection legislation further prohibits the transfer of personal data to non-EEA countries that do not meet the European "adequacy" standard for privacy protection. The E.U. privacy legislation requires, among other things, the creation of government data protection agencies, registration of processing with those agencies, and in some instances prior approval before personal data processing may begin. Such legislation and the associated compliance practices implemented under such legislation may impose significant additional costs or restrictions on our business or subject us to additional liabilities.

On November 25, 2009, E.U. Directive 2009/136/EC was enacted, which amended certain prior directives affecting online service providers respecting the processing of personal data and the protection of privacy in the electronic communications sector. As mentioned above, this amendment tightened the restrictions around the use of cookies with E.U. consumers and this amended "ePrivacy Directive" now requires that:

"*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 consent.*"

Some local legislation is now implemented by Member States but others, missing the prescribed deadline for such implementation of May 2011, have not resolved and published their approach to the required changes to legislation. Much about how this new directive may affect our operations in the European Union remains unknown until E.U. Member States pass their own implementing legislation. Valuable associated regulatory guidance on best practice in those Member States that have implemented the rules is only slowly being issued, leaving additional uncertainty around the changes which may be required of our business. While a number of self-regulatory compliance regimes are emerging, none are fully endorsed as offering a full route to compliance by the regulators and few of the current attempts at compliance within our industry are consistent and there is no definitive picture of "best practice" at the current time in our industry. As others in the online market, we are observing the changes in online practice made by our peers and recognize a likely need to amend our practices.

Notably, and as mentioned above, Article 66 of the ePrivacy Directive requires both transparency about cookie use and that a provider obtain a user's consent before a cookie is placed on the user's computer. While a user's choice in browser settings to allow cookies has been deemed to suffice in several European jurisdictions, these technologies have not yet emerged and as a consequence it is likely that some form of affirmative step is to be necessary to enable a user to opt in before or at the time the cookie is placed. As clarity around these new rules and associated guidance emerges, we might be required to incur costs to ensure compliance and consider solutions or limitation of access to our services, and we might become subject to additional liability. Inevitably the solution required may also have a negative impact on consumer adoption and the types of services and revenue we can derive from cookie use and the information such use can derive. However, there are a number of industry-led initiatives leveraging browser settings and other advances which may lead to more effective and acceptable routes to legal compliance.

Similar to the U.S. CAN-SPAM Act of 2003, the European Union has an equally tough legal regime as a result of the Privacy and Electronic Communications Directive (2002/58/EC), which specifically applies to the sending of unsolicited commercial email. All E.U. Member States now have implementations within their own national legislation which implement these rules (though not always on the same basis, which complicates our compliance). As a consequence, direct marketing email messages may be sent only to subscribers who have given their prior consent ("opt-in") although certain exemptions apply where there has been a prior course of dealing with the consumer in question, which can provide our business with more flexibility. We are challenged by these (and associated) rules when mounting E.U. email campaigns, and non-compliance would expose us to potential fines, regulatory investigations and sanctions on a country-to-country basis, as well as potentially reputational damage.

C. ORGANIZATIONAL STRUCTURE

IncrediMail, Inc., our wholly-owned Delaware subsidiary, owns all of the outstanding shares of common stock of Smilebox Inc., a Washington corporation. SweetIM Ltd., our wholly-owned Belize subsidiary, owns all of the outstanding ordinary shares of SweetIM Technologies Ltd.

D. PROPERTY, PLANTS AND EQUIPMENT

We lease three facilities, located in Tel Aviv, Israel, Ra'anana, Israel and Redmond, Washington. One lease in Tel Aviv for a total area of 18,300 square feet expires in 2015, with a monthly rent of approximately $18 per square foot. In December 2012, we increased the area leased by 8,310 square feet with a monthly rent of approximately $19 per square foot, also set to expire in 2015. The lease in Ra'anana is for a total area of 10,753 square feet and expires in 2013, with a monthly rent of approximately $15 per square foot. We began to pay for this lease in December 2012, as part of the SweetIM acquisition, and we do not expect to renew this lease when it expires in December 31, 2013. The lease in Redmond for a total area of 8,300 square feet expires in 2015, with an option to extend for another 2 to 5 years, and a monthly rent of approximately $19 per square foot.

We believe that our current facilities are adequate to meet our current needs and we believe that suitable additional space will be available as needed to accommodate ongoing operations and any such growth.

We own approximately 196 servers located in Israel and Seattle, Washington. We also rent the services of approximately 90 additional servers located around the world. Our servers include mainly web servers, application servers, mail servers and database servers. Bezeq provides our Internet and related telecommunications services in Israel, including hosting and location facilities, needed to operate our websites. Bezeq is Israel's largest provider of such services and is a member of Bezeq Group, Israel's incumbent national telecommunications provider. Bezeq provides these services through standard purchase orders and invoices. We add servers and expand our systems located at their facilities as our operations require. We believe there are many alternative providers of these services both within and outside of Israel. In addition to local servers, we have begun to use cloud based services provided by Amazon and other companies.

ITEM 4.A UNRESOLVED STAFF COMMENTS

Not applicable.

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 and the related notes to the financial statements included elsewhere in this annual report. 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

Overview

We design and market a suite of downloadable consumer products that are simple, safe and useful. These include primarily, customized and entertaining email software products, software for sharing digital photo creations, instant messaging enhancement software and a variety of free, fun, easy to use and safe application and downloadable expression content. We believe we are unique in addressing our demographic market of second wave adopters. We believe that the user experience we have created has been successful in attracting a unique underserved demographic segment, seeking software applications that make their life a little simpler and more enjoyable. In addition, together with our products, we offer users consumer software products owned by other companies, which are distributed in conjunction with our products and search services provided by our search engine partners.

In the last quarter of 2012, we recorded an average of approximately 11.5 million installs each month. As of December 31, 2012, we had an installed base of approximately 59.9 million users, including 413,000 subscribers to our premium products. In the last quarter of 2012, our install base generated over 1,494 million search queries, our email users sent over 251 million IncrediMail emails and our Smilebox users shared 1.5 million creations each month. Included in our "installed base" are users who have our software installed on their computer on the measurement date. The length of use varies dramatically based on the product, whether it's the free version or paid for, when the product was downloaded and other factors. We believe our historical track record of our users accepting and utilizing the search properties we offer, as well as converting registered users to purchasing customers, represents a convincing validation of our business strategy.

Prices and license fees for our products vary based on market, length of license period and whether the products are offered together. Our prices and fees range from less than $5 to about $40, with subscription periods varying between a month and a year. These prices are subject to market conditions and can vary in currencies. Because a significant portion of our revenues come through other aggregators, it is difficult for us to know whether and to what extent inflation or a fluctuation in foreign currency exchange rates have had a material effect on our revenues and therefore there is little we can do to address these issues.

Recent Acquisitions

The following acquisitions were accounted for by the acquisition method of accounting, and, accordingly, the purchase price was allocated to the assets acquired and liabilities assumed based on their respective fair values. The results of operations related to each acquisition are included in our consolidated statement of income from the date of acquisition.

On August 31, 2011, we completed the acquisition of Smilebox Inc., a Washington corporation, through our Delaware subsidiary, by way of a reverse triangular merger. Smilebox is an Internet photo sharing service available for the desktop and smart-phone, with an easy-to-use, downloadable desktop application that allows consumers to use personal photos and videos to construct unique creations, including: greeting cards, invitations, slideshows, scrapbooks and photo albums. The acquisition added another major product to our portfolio of products, significantly diversifying our revenue mix. We paid $25 million, substantially in cash, at the closing, and an additional payment of $7 million, substantially in cash, seven months after the closing.

On November 30, 2012, we completed the purchase of all the outstanding shares of SweetIM Ltd., a Belize company that wholly owns SweetIM Technologies Ltd., an Israeli consumer internet company, or SweetIM. SweetIM produces a variety of free, fun, easy to use and safe applications and downloadable content for everyday use under the "SweetPacks" trade name. Like us, SweetIM generates a significant majority of its revenues through the Google AdSense program. We paid $10 million in cash and 1.99 million of our ordinary shares at the closing. A second payment of up to $7.5 million in cash is due 12 months after the closing, and a third payment of up to $7.5 million in cash is due 18 months after the closing, if certain achievements are met. The second payment will be subject to acceleration if we publish a consolidated balance sheet reflecting an aggregate amount of cash, cash equivalents and marketable securities of less than $4.0 million, unless we present evidence of an available credit line in an amount that, together with the foregoing balance, exceeds $4.0 million or we have otherwise remedied the shortfall.

Revenues

We generate our revenues primarily from three major sources: (i) search generated revenues and other services, (ii) sale of premium software products and solutions, and (iii) advertising and other. The following table shows our revenues by category (in thousands of U.S. dollars):

	Year Ended December 31,		
	2010	**2011**	**2012**
Search	$ 22,792	$ 25,466	$ 38,061
Products	5,404	7,191	17,574
Other	1,301	2,816	4,588
Total revenues	$ 29,497	$ 35,473	$ 60,223

Cost of Revenues

Cost of revenues consists primarily of salaries and related expenses, license fees, amortization of acquired technology, amortization of capitalized research and development costs and payments for content and server maintenance, all related to our product revenues and communicating with our users. The direct cost relating to search and advertising revenues are immaterial.

Research and Development Expenses, net

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 2012 increased compared to the prior year but decreased as a percentage of sales. The increase was primarily due to costs associated with our mobile product development for Smilebox on the iPhone, which is already being distributed, and IncrediMail for the iPad, which was released in the first quarter of 2013. We expect this trend to continue in 2013, with our research and development costs continuing to increase in nominal dollars, while decreasing as a percentage of sales, as our sales continue to grow at an accelerated pace. The nominal increase will enable us to continue to enrich our product pipeline going forward, particularly on mobile platforms.

Selling and Marketing Expenses

Our selling and marketing expenses consist of customer acquisition cost, salaries and other personnel-related expenses for employees primarily engaged in marketing activities, allocated facilities costs, as well as other outsourced marketing activity. As part of our strategy to accelerate growth, we increased customer acquisition costs dramatically in 2011 and 2012, particularly in the second half of 2012, and expect to increase the pace of investment even further in 2013. This investment aims to increase the number of product downloads, users, search queries generated by those downloading our software and, subsequently, revenue from search, premium subscriptions and advertising. Customer acquisition costs were $1.8 million, $8.0 million and $22.1 million in 2010, 2011 and 2012, respectively. The number of employees in sales and marketing were 18, 32, and 50 at the end of 2010, 2011 and 2012, 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. In order to facilitate our strategy for accelerated organic and non-organic growth, starting towards the end of 2010 and continuing into the beginning of 2011, we enhanced our management team with experienced professionals, capable of taking the Company to the next level, including engaging a new experienced CEO, creating a corporate development department and hiring a VP to manage it, and creating an internal legal department with a General Counsel. With the acquisition of Smilebox in the second half of 2011 and the execution of our acquisition strategy, we continued to enhance our management capabilities, particularly enhancing our budget and controls. As a result, G&A expenses increased nominally in 2010, 2011 and in 2012. In 2011 and 2012, on a GAAP basis, G&A expenses also included significant direct acquisition expenses incurred in connection with the acquisitions made in each year. However, excluding acquisition-related expenses, as a percentage of sales, G&A in 2012 was at its lowest level since going public in 2006. Looking forward, we expect G&A expenses, excluding costs stemming from new acquisitions, to continue to increase nominally to accommodate our growth and meet our regulatory requirements, without increasing as a percentage of sales in 2013.

Income Tax Expense

Our Israeli operations were granted "Approved Enterprise" and "Beneficiary Enterprise" status. These programs allow for 0% corporate tax for a limited period of time on undistributed profits generated from operations, and preferential taxation of the distributed portion, requiring regular Israeli corporate tax on income generated from other sources. To the extent we distribute dividends from profits generated under this program, as we did in 2009 and 2010, the distributed sum would benefit only partially from this program. We have elected to implement the recent tax reform, referred to as a Preferred Enterprise, starting with our 2011 "preferred income", according to which, a reduced tax rate of 15% is applied to our preferred income. 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).

See "Item 10.E Taxation - Israeli Taxation - Law for the Encouragement of Capital Investments, 1959" and Item 8. Financial Information A. Consolidated Statements and Other Financial Information - Policy on Dividend Distribution", for more information about these programs and the Company's dividend policy.

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 3 to our financial statements, we believe the following accounting policies to be critical:

Revenue recognition

Search generated and other revenues from advertising, whether from keyword search, advertising on our website or in our email client, are recognized when we are entitled to receive the fee. Advertisers are charged and pay monthly, based on the number of clicks generated by users clicking on these ads. Persuasive evidence of an arrangement exists based upon a written agreement or purchase order with a search provider or display advertiser. Delivery occurs when an advertisement is offered by us and a user clicks on it in the case of a cost-per-click (CPC) arrangement, or the requisite number of impressions are displayed pursuant to a cost-per-thousand impression (CPM) arrangement, or when a user installs our software.

In accordance with ASC 605-50, "Customer Payments and Incentives", we account for cash consideration given to customers, for which we do not receive a separately identifiable benefit or cannot reasonably estimate fair value, as a reduction of revenue rather than as an expense.

Revenues from email software license sales are recognized when all criteria outlined in ASC 985-605, "Software – Revenue Recognition" are met. Revenues from software license are recognized when persuasive evidence of an agreement exists, delivery of the product has occurred, the fee is fixed or determinable and collectability is probable.

For substantially all of our software arrangements, we evaluate each of these criteria as follows:

Evidence of an arrangement: We consider a clicking on "acceptance" of the agreement terms to be evidence of an arrangement.

Delivery: Delivery is considered to occur when the license key is sent via email to the customer or alternatively the customer is given access to download the licensed key.

Fixed or determinable fee: Fees are determinable at the time of sale. Customers are charged immediately through credit cards. In addition, the fees are subject to a refund policy period, currently up to 30 days.

Collection is probable: We are subject to a minimal amount of collection risk related to software sold to our customers as these are obtained through credit card sales.

Revenues from licensing of premium products are recognized over the term of the licensing period, which currently are either one month or one year. Until the end of 2011, we offered lifetime licenses for one of our premium products as well. While offered, our estimation of the lifetime usage of that product was six years, based on historical data collected. We no longer offer that service, offering all users who had purchased the service in the past to download to their local computer all the premium content previously included in the service. Any user not having downloaded the content may still contact us and receive a copy of the premium content. As the service has been terminated, that premium content collection is no longer updated, nor can it be accessed through our software. The balance of revenues previously deferred over the remaining lifetime of the service was truncated and recognized as revenues in the beginning of 2012. These accounted for less than 3% of our revenues for the year.

Our deferred revenue consists of the unamortized balance of the license fees, which totaled $5.1 million as of December 31, 2012, all of which was classified as short-term deferred revenues on our balance sheet.

The amount of revenues derived from multiple element arrangements is not material to our results of operations.

Stock-Based Compensation

We account for share-based payment awards made to employees, non 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. If actual forfeitures differ from our estimates, equity-based compensation expense and our results of operations would be impacted. Expense is generally recognized on a straight-line basis over the service period during which awards are expected to vest, except for awards with market or performance conditions, which are recognized using the accelerated method.

Total equity-based compensation expense recorded during 2012 was $1.1 million, of which $0.2 million was included in research and development costs, $0.2 million in selling and marketing expenses and $0.7 million in general and administrative expenses.

As of December 31, 2012, the maximum total compensation cost related to options granted to employees, non-employees and directors not yet recognized, amounted to $2.3 million. This cost is expected to be recognized over a weighted average period of 2.37 years.

We estimate the fair value of standard stock options granted using the Binomial method option-pricing model and options with exercise that is subject to a stock price target, using the Monte Carlo simulations. The option-pricing models require a number of assumptions, of which the most significant are expected stock price volatility and the expected option term. In 2010, expected volatility was calculated based upon an average between historical volatilities of our shares, entities similar to the Company's characteristics, and an industry sector index, since we did not have sufficient company specific data. In 2011 and 2012, expected volatility was calculated based upon actual historical stock price movements over the most recent period ending on the grant date, equal to the expected option term. The expected option term was calculated based on our assumptions of early exercise multiples, which were calculated based on comparable companies, and a termination exit rate, which was calculated based on actual historical data. The expected option term represents the period that our stock options are expected to be outstanding. The risk-free interest rate is based on the yield from U.S. Treasury zero-coupon bonds with an equivalent term.

In November 2010, our board of directors changed our dividend policy so that we do not distribute any cash dividends.

Taxes on Income

We are subject to income taxes 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, as well as the related interest. Starting 2011, 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, 2012 and 2011 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 10 of our consolidated 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 account for business combinations following ASC 805 "Business Combinations", which requires that we allocate the purchase price of acquired companies to the tangible and intangible assets acquired and liabilities assumed, based on their estimated fair values. In addition, we expense acquisition-related expenses as they are incurred. We engage a third-party appraisal firm to assist management in determining the fair values of certain assets acquired and liabilities assumed. Such valuations require management to make significant estimates and assumptions, especially with respect to intangible assets.

Management makes estimates of fair value based upon assumptions it believes to be reasonable. These estimates are based on historical experience and information obtained from the management of the acquired companies and relevant market and industry data and are, inherently, uncertain. Critical estimates made in valuing certain of the intangible assets include, but are not limited to, the following: (i) future expected cash flows from license sales, maintenance agreements, customer contracts and acquired developed technologies and patents; (ii) the acquired company's brand and market position as well as assumptions about the period of time the acquired brand will continue to be used in the combined company's product portfolio; (iii) expected costs to develop the in-process research and development into commecrially viable products and estimating cash flows from the projects when completed; and (iv) discount rates. Unanticipated events and circumstances may occur which may affect the accuracy or validity of such assumptions, estimates or actual results. Changes to these estimates, relating to circumstances that existed at the acquisition date, are recorded as an adjustment to goodwill during the purchase price allocation period (generally within one year of the acquisition date) and as operating expenses, if otherwise.

In connection with purchase price allocations, we estimate the fair value of the support obligations assumed in connection with acquisitions. The estimated fair value of the support obligations is determined utilizing a cost build-up approach. The cost build-up approach determines fair value by estimating the costs related to fulfilling the obligations plus a normal profit margin. The sum of the costs and operating profit approximates, in theory, the amount that we would be required to pay a third party to assume the support obligation. See Note 2 to our consolidated financial statements for additional information on accounting for our recent acquisition.

Goodwill

Goodwill is measured as the excess of the cost of acquisition over the sum of the amounts assigned to tangible and identifiable intangible assets acquired less liabilities assumed. We review goodwill for impairment annually in October each year, and whenever events or changes in circumstances indicate its carrying value may not be recoverable in accordance with ASC 350 "Intangibles – Goodwill and other". Goodwill impairment is deemed to exist if the carrying value of a reporting unit exceeds its fair value. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, then we would record an impairment loss equal to the difference.

We operate in one operating segment, and this segment comprises our only reporting unit. In calculating the fair value of the reporting unit, we used our market equity capitalization.

If the carrying value of a reporting unit exceeds its fair value, we then calculate the goodwill's implied fair value by performing a hypothetical allocation of the reporting unit's fair value to the underlying assets and liabilities, with the residual being the implied fair value of goodwill. This allocation process involves using significant estimates, including estimates of future cash flows, future short-term and long-term growth rates, weighted average cost of capital and assumptions about the future deployment of the long-lived assets of the reporting unit. Other factors we consider are the brand awareness and the market position of the reporting unit and assumptions about the period of time we will continue to use the brand in our product portfolio. If these estimates or their related assumptions change in the future, we may be required to record impairment charges for our goodwill.

Our most recent annual goodwill impairment analysis, which was performed during in 2012, did not result in impairment. As of December 31, 2012, our market capitalization was significantly higher than our equity book value.

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, 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. No impairment charges were recognized during 2010, 2011, or 2012.

Research and Development Expenses, Net

Research and development costs incurred in the process of software development before establishment of technological feasibility are charged to expenses as incurred. Costs of the production of a detailed program design incurred subsequent to the establishment of technological feasibility are capitalized. Based on our product development process, technological feasibility is established upon completion of a detailed program design.

Capitalized software development costs are amortized commencing with general product release by the straight-line method over the estimated useful life of the software product.

At each balance sheet date, we assess the recoverability of this intangible asset by comparing the unamortized capitalized software costs to the net realizable value on a product by product basis. Should the amount of the unamortized capitalized costs of a computer software product exceed the net realizable value, these products will be written down by the excess amount.

Recently issued accounting pronouncements.

In June 2011, the FASB issued guidance to require an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements, thus eliminating the option to present the components of other comprehensive income as part of the statement of equity. In addition, the guidance requires that the reclassification adjustments for items that are reclassified from other comprehensive income to net income be presented on the face of the financial statements. However, in December 2011, the FASB indefinitely deferred the requirements related to the presentation of reclassification adjustments. The guidance became effective for us beginning January 1, 2012, and will only result in changes in our financial statements presentation.

Results of Operations

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,		
	2010	**2011**	**2012**
Revenues:			
Search	77%	72%	63%
Products	19	20	29
Other	4	8	8
Total revenues	100%	100%	100%
Cost of revenues	5	8	9
Gross profit	95	92	91
Operating expenses			
Research and development, net	23	21	18
Selling and marketing	18	37	49
General and administrative	16	22	14
Total operating expenses	57	80	81
Operating income	38	12	10
Financial income, net	1	4	0
Income before taxes on income	39	16	10
Income tax expense	11	-	4
Net income	28%	16%	6%

As shown in the above table, our operations are generally characterized by high gross profit margins, which are attributable mainly to two factors: (i) we do not have manufacturing costs for our products, and (ii) our search generated revenues have virtually no direct cost associated with them. Starting the second half of 2011, we dramatically increased our investment in customer acquisition costs to fuel future growth. These expenses increased from $8.1 million in 2011 to $22.1 million in 2012. This was the primary reason for the increase in selling and marketing expenses in 2012, both nominally and as a percentage of sales, resulting in lower operating and net income margins in 2011. We expect to further increase our customer acquisition costs in 2013, increasing our sales and marketing expenses. In addition, general and administrative expenses included expenses related to the acquisition of subsidiaries of $1.1 million and $2.1 million in 2011 and 2012, respectively. However, as a result of these acquisitions, we expect increased revenues and improved operating margins in 2013.

Year Ended December 31, 2012 Compared to Year Ended December 31, 2011

Revenues. Revenues increased by 70% in 2012, from $35.5 million in 2011 to $60.2 million in 2012. This increase was a result of increases in each of our revenue streams. Although we expect continued growth in 2013 in all revenue streams, we expect such growth to be driven substantially by search generated revenues as a result of the recent acquisition of SweetPacks, which was focused on search, and as we increase significantly the investment in customer acquisition.

Search revenues. Search revenues increased by 49% in 2012, from $25.5 million in 2011 to $38.1 million in 2012. This increase was due to an increase in the number of downloads and subsequently the number of users using our search service. We offer our search service in conjunction with our products and toolbar, with Google currently powering the search service for ostensibly all our users. In addition, our SweetIM acquisition contributed one month of search revenues from the acquired company in 2012. On January 31, 2013, we signed an amendment to our agreement with Google extending the term of the agreement to May 31 2013, to coincide with the expiration date of the agreement between SweetIM and Google. On April 23, 2013, we entered into a new agreement with Google, effective from May 1, 2013 to April 30, 2015. The new agreement combines the activities of Perion and SweetIM into one agreement and replaces both of the existing agreements with Google. We expect our search revenues to continue to grow as we increase our marketing expenses in general and customer acquisition costs in particular.

Products revenues. Product revenues increased by 144% in 2012, from $7.2 million in 2011 to $17.6 million in 2012. This increase was primarily attributable to the addition of Smilebox to our product portfolio in September 2011, and the subsequent growth in sales of our Smilebox product. Revenues from our Smilebox product in 2012 were $11.6 million, compared to $2.2 million in 2011. IncrediMail product revenues increased by $1.0 million in 2012, as a result of our discontinuing the Gold Gallery Lifetime subscription. We believe that in 2013 we will see increasing revenues from our products, particularly from our Smilebox product, as we improve the product and our marketing and distribution techniques. In addition, we expect to focus future acquisitions on product oriented companies, enriching our product portfolio and providing for a more balanced revenue stream.

Other revenues. Advertising and other revenues increased 63% in 2012, from $2.8 million in 2011 to $4.6 million in 2012. This increase is attributable to increased distribution of our software and to the offering of our homepage, which includes display advertising, and the subsequent acceptance of this offer by our users. We believe these revenues will continue to increase in 2013, as our distribution increases, nominally and as a percentage of total sales.

Cost of revenues. Cost of revenues in 2012 was $5.2 million, as compared to $2.8 million in 2011. Amortization of intangible assets increased by $1.2 million due to the acquisition of SweetIM, and the balance was due to the inclusion of Smilebox for a full year in 2012 and additional infrastructure costs. The increase in amortization expenses stemming from the SweetIM acquisition caused a slight decrease in gross profit margin from 92% in 2011, to 91% in 2012. As we expect search generated revenues to grow at a higher pace than product revenues, this will offset the increase in amortization expenses, so our gross profit margin will still remain above 90%.

Research and development expenses, net ("R&D"). R&D increased by $3.2 million in 2012, from $7.5 million in 2011 to $10.7 million in 2012, decreasing as a percentage of sales from 21% in 2011 to 18% in 2012. The increase was as a result of our investing in enriching our product pipeline in 2012, primarily by making our products available on mobile platforms. A mobile version of our Smilebox product, available for the iPhone, was announced in the third quarter of 2011 and already has accumulated over 1 million downloads. In the first quarter of 2013, we released a mobile version of our IncrediMail product for the iPad. In 2013 we intend to develop additional mobile versions of our products for other platforms, such as Android, and possibly others. As a result, we expect this expenditure to further increase nominally, although to continue to decrease as a percentage of sales as our sales continue to grow more rapidly.

Selling and marketing expenses. Selling and marketing expenses more than doubled, from $13.0 million in 2011 to $29.5 million in 2012. This increase was primarily attributable to the increased investment in customer acquisition costs, which increased from $8.0 million in 2011 to $22.1 million in 2012. This increase reflects a ramping up of these expenses all through 2012, reaching $9.7 million in the fourth quarter of 2012. This investment is to fuel future accelerated growth and we expect to further increase this investment in 2013, even as a percentage of sales, in order to fuel growth in 2013 and 2014. In addition, marketing expenses increased due to personnel costs incurred by increasing the size of our marketing department as we added the Smilebox marketing department in 2012. We expect these expenses, excluding the customer acquisition costs, to grow only nominally from the level established in the last quarter of 2012. In 2013, we expect to continue and increase customer acquisition costs to more than $50 million, in order to further accelerate the growth of our revenues. That being said, we continue to condition this investment on a positive return on investment ("RoI") within one year, and to the extent we cannot maintain a positive RoI, we may curtail this expenditure.

General and administrative expenses ("G&A"). G&A increased from $7.6 million in 2011 to $8.6 in 2012. This increase was primarily due to costs associated with the acquisition of subsidiaries in 2012, compared to the previous year. G&A expenses from organic operations in 2012 were at a level similar to that of 2011. As a result, and even after the increased in acquisition expenses, G&A as a percentage of sales decreased from 22% in 2011 to 14% in 2012. With the exception of costs that could be incurred in connection with future acquisitions, although we expect G&A cash expenses to increase nominally; we expect these cash expenses to decrease as a percentage of sales in 2013.

Taxes on Income. Income tax in 2012 was $2.5 million, compared to $0.2 million in 2011. The increase in income tax was primarily a result of a number of tax credits received in 2011 with respect to past years, a tax refund due to the settlement of a tax audit with the Israeli tax authorities and the discontinuation of our dividend distribution policy. In 2012, we did not benefit from these credits, and while our maximum statutory tax rate is 25%, we suffered from non-recurring tax expenses which coupled with an increase in non-deductible expenses, caused an effective tax rate of 41%. As we look towards 2013, we do not currently expect a recurrence of the tax credits from 2011, or as significant non-recurring tax expenses experienced and accrued for in 2012.

Net Income. Net income in 2012 was $3.5 million, compared to $5.7 million, in 2011. As described above, this decrease was primarily a result of the $14.0 million increase in customer acquisition costs, the nominal increases in other operating expenses and the $2.3 million increase in tax expenses, partially offset by increased profits from the increase in revenues.

Year Ended December 31, 2011 Compared to Year Ended December 31, 2010

Search revenues. These revenues increased by 12%, from $22.8 million in 2010, to $25.5 million in 2011. This increase was due to an increase in the number of downloads and subsequently the number of users using our search service. As the number of downloads of our IncrediMail products increased, while the number of downloads of our Magentic and HiYo products decreased, search generated revenues through our partnership with Google accounted for more than 94% of these revenues, with the remaining revenues coming from other search providers.

*Product*s revenues. These revenues grew by over 33% in 2011, from $5.4 million in 2010 to $7.2 million in 2011. This increase was primarily attributable to our acquisition of Smilebox, whose products sales were $2.2 million in the last four months of the year, partially offset by a $0.4 million decrease of organic products sales.

Other revenues. These revenues more than doubled in 2011, from $1.3 million in 2010 to $2.8 million in 2011. This increase is attributable to collaboration with other vendors for the sale of their product to our users and an increase in other advertising revenues through a toolbar, on our homepage and other advertising revenues.

Cost of revenues. Cost of revenues in 2011 was $2.8 million, as compared to $1.6 million in 2010. This increase was primarily due to the acquisition of Smilebox, whose associated direct costs of approximately $0.6 million included amortization of intangible assets and direct content costs. Smilebox content costs are based on usage and, as a result, are included in the cost of revenues.

Research and development expenses, net ("R&D"). R&D increased by $0.9 million, from $6.6 million in 2010 to $7.5 million in 2011, decreasing as a percentage from sales from 23% in 2010 to 21% in 2011. The increase was as a result of our investing in enriching our product pipeline in 2011, with the Fixie product coming to market in the fourth quarter of 2011, the mobile version of our Smilebox product announced shortly after the acquisition, and the announced PhotoJoy product for iPad and iPhone platforms.

Selling and marketing expenses. Selling and marketing expenses more than doubled from $5.2 million in 2010 to $13.0 million in 2011. This increase was primarily attributable to the increased investment in customer acquisition costs, which increased from $1.8 million in 2010 to $8.1 million in 2011. In addition, marketing expenses increased due to personnel costs incurred by our increasing the size of our marketing department to enable us to make these investments and subsequently track the return generated. Finally, the increase was also due to the marketing expenses incurred by the acquisition of Smilebox and the marketing expenses needed to support that product.

General and administrative expenses ("G&A"). G&A increased from $4.7 million in 2010 to $7.6 in 2011. This increase was primarily due to our building a management team, primarily in the latter part of 2010, capable of scaling our business model and taking us to the next level, both organically and through acquisitions. As a result, in 2011, G&A on average was at a level similar to that of the last quarter of 2010. In addition, we recorded over $1.0 million in expenses related to the acquisition of Smilebox, which in according to U.S. GAAP is accounted for as an expense immediately.

Taxes on Income. Income tax in 2011 was $0.2 million, compared to $3.2 million in 2010. The decrease in income tax was a result of a number of tax credits received with respect to past years, a tax refund due to the settlement of a tax audit with the Israeli tax authorities and the discontinuation of our dividend distribution policy.

Net Income. Net income in 2011 was $5.7 million, compared to $8.4 million, in 2010. As described above, this decrease was primarily a result of the $6.2 million increase in customer acquisition costs, amortization of intangibles resulting from the Smilebox acquisition, partially offset by increased profits from the increase in revenues and capitalization of research and development costs.

B. LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2012, our working capital was a negative $4.3 million, consisting of approximately $47.7 million in current assets, less $52.0 million in current liabilities. As of December 31, 2011, our working capital was zero, as current assets and current liabilities both equaled $21.0 million. The decrease in working capital was primarily due to the acquisition of SweetIM in the last quarter of 2012. Under the terms of the acquisition agreement, virtually all the cash acquired, approximately $13 million, is payable to the sellers of SweetIM. At closing, which occurred on November 30, 2012, we paid $10 million in cash, a second payment of up to $7.5 million in cash is due towards the end of 2013, 12 months after closing, and we've accrued a $3.0 million contingent tax liability related to this acqusition. These items related to the acqusition of SweetIM caused a decrease in working capital of approximately $20.5 million. This reduction was subtantially offset by cash generated by ongoing activities.

As of December 31, 2012, we had bank loans outstanding totaling $8.9 million, to be paid over the next three to four years, including $6.6 million classified as long term debt and $2.3 million with current maturities.

We believe that our cash balances and cash generated from operations will be more than sufficient to meet our anticipated cash requirements for operations, as well as our deferred acquisition payments, for at least the next 12 months.

Net Cash Provided By Operating Activities. Net cash provided by operating activities was $9.8 million, $8.1 million and $16.3 million for 2010, 2011 and 2012, respectively. The increase in cash provided by operating activities in 2012 was primarily a result of an increase in operating payables coupled with a decrease in operating assets, resulting in a net increase of $7.8 million. The $2.1 million decrease in net income in 2012 compared to 2011, was more than offset by the $3.3 million increase in non-cash expenses included in net income for 2012, as compared to 2011.

Net Cash Used In Investing Activities. Net cash used in investing activities was $10.2 million, $8.0 million and $14.7 million in 2010, 2011 and 2012, respectively. While in 2010, the net cash used in investment activities was a result of the net investment in marketable securities; in 2011 and 2012 the cash used in investing activities was primarily a result of the acquisition of Smilebox and SweetIM, respectively. In 2011, we invested $21.7 million in cash for the acquisition of Smilebox and $1.1 million in equipment and capitalized content and software cost. These investments were partially offset by the $14.8 million in proceeds from the net sale of marketable securities. In 2012, we invested $13.6 million cash in connection with the acquisition of Smilebox and SweetIM and $1.5 million in equipment and capitalized content and software cost.

Net Cash Provided by (Used In) Financing Activities. Net cash provided by (used in) financing activities was ($7.9) million, ($3.9) million and $2.3 million in 2010, 2011 and 2012, respectively. In 2010 and 2011, the cash was used primarily for the payment of dividends to shareholders, a policy that has been discontinued. In 2012, the cash was provided by the bank loan taken, less payments already made on account, providing net cash of $8.9 million, less $6.6 million deferred payment for acquisitions.

Credit Facilities

In September 2011, we entered into an agreement with each of Bank Leumi Le-Israel ("Leumi") and First International Bank of Israel ("FIBI"), to secure a credit facility for up to a total of $20 million of financing. During the second quarter of 2012, we amended both agreements, and reduced the amount of each credit facility, to $6 million provided by Leumi, and $4 million by FIBI. The repayment of the debt is structured over four and five years from the draw date, respectively, and we have an option for early repayment.

In order to secure our obligations to the banks we pledged and granted to the banks a first priority floating charge on all of our assets and a first priority fixed charge on certain other immaterial assets (namely, rights for unpaid shares, securities and other deposits deposited with the banks from time to time, and rights for property insurance). The pledge agreements contain a number of customary restrictive terms and covenants that limit our operating flexibility, such as (1) limitations on the creation of additional liens, on the incurrence of indebtedness, on the provision of loans and guarantees and on distribution of dividends, and (2) the ability of the banks to accelerate repayment in certain events, such as breach of covenants, liquidation, and a change of control of our Company. Such provisions may hinder our future operations or the manner in which we operate our business, which could have a material adverse effect on our business, financial condition or results of operations.

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

Our research and development activities are conducted internally by a 117 person research and development staff.

Research and development expenses, net were $6.6 million, $7.5 million and $10.5 million in the years ended December 31, 2010, 2011 and 2012, respectively. In 2012, our efforts were focused on developing the back-end systems required for tracking the usage of our products and their monetization, developing new products, particularly the mobile version of our photo sharing product Smilebox, now available on the iPhone, as well as the mobile version of our IncrediMail communication client, introduced in the first quarter of 2013. We plan to continue these efforts through 2013, as well as initiate the development of an ad-network platform expected to be functional and providing revenues starting in 2014. We expect this investment to continue and increase nominally in 2013, although it will likely decrease as a percentage of sales relative to 2012.

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. In recent months there have been certain changes introduced by Google, changing the way Google's partners, such as ourselves, acquire and retain customers. These changes aim to improve the user experience, a principle that is important to us as well. However, the changes could reduce the return on investment in the short term, and will cause long term changes to the search market as well. We believe that our recent acquisition of SweetIM, our existing team and the experienced team that joined us as part of the acquisition, make us well positioned to address and accommodate these changes. As a result, we expect that a as result of the combination of the two companies, as well as the further increases in our customer acquisition efforts, search generated revenues will be our primary organic growth catalyst in 2013. We are working to ensure compliance with our contractual obligations and an improved user experience. However, although we believe the measures being taken are good for the consumer and in the long-term for us as well, it is possible that in the short term, as the market adapts to these new requirements and environment, the return on our marketing investment could decrease.

2. In recent years, we have witnessed an increase in the use on the desktop of web-based email solutions, such as Microsoft Outlook, Yahoo! Mail and Google's Gmail. Facebook Mail is a relatively new addition to this market, having a lot of potential based on its social network popularity. While our IncrediMail product is based on the use of these email products, and there is still a vast market for PC-based email clients, there is no doubt that the popularity of web-based email is growing at the expense of the PC-based software. This has caused us to increase our efforts in adapting our IncrediMail product to the specific consumer needs not satisfied by the web-based solution. Further investment is also required in other forms of online communication as audiences (especially younger ones) are using email less. The continual growth in social communication products and services, including smartphones, makes it essential for our products to be compatible with Facebook, Twitter, SMS and other forms of social communication and mobile platforms. While the use of an email client on mobile devices is common practice, there is increasing competition from dedicated email applications, such as Mailbox, Inky, Mailbird, Sparrow and others. We will continue to make investments, both organic and through acquisitions, to further solidify our position with new products and services focusing on mobile applications as well as social communication products and look to increase our investment on the usage of social media and mobile devices to attract more users to our brands.

3. The sharing and storing of digital photos on personal computers, and on photo hosting sites such as Instagram, Facebook or Shutterfly, has increased substantially in recent years. The convenience of such online storage of photos has created a growing commercial industry with products like personalized photo books, cards, calendars, stationery, scrapbooks (printed and digital) as well as photo backup services and storage services. Smilebox is aimed at helping people create and share their pictures enabling users to enjoy all the photos that they have stored on their computer or online using new capabilities, with minimal effort from the user. As camera phones continue to improve and more and more users use their camera phones to capture their special moments, there is significant growth opportunity for us to help users create special memories both "in the moment" and "after the moment."

5. There has been a growing usage of portable platforms, including smartphones and tablets, enabling users to enjoy a more graphic and creative experience without a PC. This trend is most prominently represented by the popularity of the iPhone and its Android mobile platforms, as well as with the popular iPad tablet. In addition, and partially as a result of these successes, the Apple-Mac platform popularity has increased as well. Although this trend is attracting an increasing portion of the market, we believe that particularly with regard to our demographic segment, the PC environment will remain the predominant platform for managing emails in the near future. To address this trend, we have been developing mobile versions of our desktop applications. We have already introduced Smilebox for the iPhone and this application has recorded over 1.2 million downloads to date. In addition, in the first quarter of 2013, we introduced IncrediMail for the iPad. In 2013, we intend to increase our investments in this direction offering better and more products on various mobile platforms.

6. As roughly 63% of our revenues are search generated, and this percentage is expected to increase in 2013, we are affected by the general trends and metrics of the search revenue market. One of the most significant metrics is the revenue per thousand impressions, or RPM, rate. In an economic downturn, the amount advertisers are willing to pay naturally declines, reducing their cost per click, or CPC, rate and subsequently our revenues. The RPM rate has fluctuated dramatically over the past months and it is difficult to predict a specific trend in this important metric going forward. This fluctuation is a function of economic conditions in each country and more importantly by the different economic conditions in each country and which countries are the focus for growth in this market. Moreover, this market is becoming more susceptible to alternative methods of advertising and commerce trends. Advertising through generic search sites is facing growing competition from alternative commerce sites as the latter become more popular and more visible, and also have the ability to leverage the increasing user data available through these sites. We have begun to invest in systems and products that could possibly leverage this trend in 2014 and beyond.

7. The downloadable software market and the way it interacts with search providers have been changing. With its market leading position, Google has been the forerunner of these changes, which have also impacted our agreement with Google. It is difficult to know how this process will end, although we are convinced that the process is ongoing and has not reached equilibrium. We will continue to work with Google as well with the other search companies to improve the consumer experience and address the market needs. As more and more products become cloud based services, this may also impact the way in which companies like ours generate search revenue. The clear trend is to provide users with a solution that is at least partly cloud-driven, enabling portability for consumers and easier maintenance for companies. More and more companies, however, are finding new ways to generate revenues, including advertising and premium sales as well as search from the web based service. Another trend in the market as it relates to downloadable software with search monetization is the intensity of the competition. In 2012, the amount of competitors and the intensity of the competition have made it more difficult to maximize the lifetime value of a consumer. We continue to focus on providing real value to the consumer from our products and services with a belief that in the long run companies with a real relationship with consumers based on a product that gives them real value is sustainable. This will be especially true in the future as the next generation of browsers may block the installation of toolbars in their current format. As mentioned earlier, our solution is one of value. Our focus is on creating products and services that serve the needs of our users and provide them with real value so that they continue to use our products and brand instead of those of the competition.

For more information on uncertainties, demands, commitments or events that are reasonably likely to have a material effect on revenue, please 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, 2012 and the effect those commitments are expected to have on our liquidity and cash flow in future periods:

		Payments Due by Period			
Contractual Commitments	**Total**	**Less than 1 year**	**1-3 Years**	**3-5 Years**	**More than 5 Years**
		(in thousands)			
Long-term debt, including current portion(*)	$ 8,850	$ 2,300	$ 6,150	$ 400	-
Accrued severance pay(**)	$ 933				
Uncertain income tax positions(***)	$ 3,952			-	-
Deferred and contingent Consideration(****)	$ 15,000	$ 7,500	$ 7,500		
Operating leases	$ 2,904	$ 1,173	$ 1,731	-	-
Total	$ 31,639	$ 10,973	$ 15,381	$ 400	

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

(**) 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 on going payments to funds to cover its obligation. Of this amount only, $449 is unfunded.

(***) Uncertain income tax positions are due upon settlement and we are unable to reasonbaly estimate the ultimate amount or timing of settlment. See Note 10i to our consolidated financial statements for further informaiton.

(****) Deferred and contingent consideration represents the maximum cash payments we will be obligated to make under contingent consideration arrangements with former owners of certain entities we acquired if specified operating objectives and financial results are achieved.

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 April 24, 2013:

Name	Age	Position
Tamar Gottlieb*(3)(4)	56	Director and Chairperson of the Board
Iris Beck*(2)	47	Director
Alan Gelman*(1)	57	Director
David Jutkowitz*(1)(2)(3)(4)	62	External Director
Avichay Nissenbaum*(1)(2)(4)	46	External Director
Adi Soffer Teeni*	42	Director
Josef Mandelbaum(4)	46	Chief Executive Officer and Director
Yacov Kaufman	55	Chief Financial Officer
Li Carmel	40	Vice President, Human Resources
Limor Gershoni Levy	42	Vice President, General Counsel
Mark Ziering	46	Vice President, Corporate Development
Yuval Hamudot	39	General Manger, Smilebox
Ron Harari	41	General Manager, Incredimail
Tomer Pascal	34	General Manager, Utilities

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* "Independent" for NASDAQ Stock Market purposes;
(1) Member of the audit committee.
(2) Member of the compensation committee.
(3) Member of the nominating and governance committee.
(4) Member of the investment committee.
Nadav Goshen served as our COO from December 1, 2012 until April 11, 2013.

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.

Tamar Gottlieb has been a director of the Company since 2001 and has served as the Chairperson of the Company's board of directors since the Company's initial public offering in February 2006. Since January 2001, Ms. Gottlieb has served as a Managing Director of Harvest Capital Markets Ltd., an investment banking and financial consulting firm that she founded in January 2001. Prior to 2001, Ms. Gottlieb served as either a managing director or a senior manager at several investment banking institutions, including Investec Clali – Management & Underwriting Ltd. (July 1997 to January 2001), Oscar Gruss (1996) Ltd. (February 1996 to May 1997) and Leumi & Co. Investment Bankers Ltd. (1980 to 1991). From 1991 to 1994, Ms. Gottlieb served as the Founding Managing Director of Maalot – The Israeli Securities Rating Company Ltd., Israel's first credit rating agency. Ms. Gottlieb currently serves as a board member of several Israeli public and private companies, including Albaad Massuot Yitzhak Ltd. (TASE: ALBA), Carasso Motors Ltd. (TASE: CRSO) and Reit 1 Ltd. (TASE: RIT1). Ms. Gottlieb has also served as a director of other companies, including El Al Israeli Airlines Ltd. (TASE: ELAL) and "Dan" Public Transportation Company Ltd. Ms. Gottlieb holds a B.A. in international relations from the Hebrew University of Jerusalem and an M.A. in economics from Indiana University.

Iris Beck has been a director of the Company since November 2011. Since April 2013, she serves as Senior Vice President, Corporate Communications Officer of Teva Pharmaceutical Industries Ltd. From 2008 to 2012, Ms. Beck served as the Chief Executive Officer of McCann Erickson Israel. From 2002 to 2008, she served as the Chief Marketing Officer of Partner Communications Company Ltd. (NASDAQ and TASE: PTNR), and from 2001 to 2002 she served as the Chief Executive Officer of Unilever Israel Ltd. Ms. Beck serves as a director of Golf and Co Israel. Ms. Beck holds a B.A in Economic Science from Haifa University, and an M.B.A. from Bar Ilan University.

Alan Gelman has been a director of the Company since August 2011. Since December 2012, he serves as the Global CFO and Deputy CEO of Better Place Inc. 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 2012, Mr. Gelman served in various positions at the Delek Group Ltd. (TASE: DELKG), including as the Chief Financial Officer from 2008 to 2012, and as Deputy Chief Executive Officer from 2006 to 2008. 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. Mr. Gelman serves as Chairman of the Board of Directors of Better place Denmark and a director of various subsidiaries of Better Place Inc. Mr. Gelman 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 the United States and in Israel.

David Jutkowitz has been an external director of the Company since December 2007, and in January 2011, he was reelected to serve a second three year term. Mr. Jutkowitz serves as a director of Extal Ltd., and of King Engine Bearings Ltd. (TASE: KING). From 2006 to 2010, Mr. Jutkowitz served as a director of Arad Investment and Industrial Development Ltd. (TASE: ARAD), and from 2001 to October 2007, Mr. Jutkowitz served as an external director of Carmel Investment Group Ltd., and as a member of the audit, investment and portfolio committees of Carmel Investment Group Ltd. From 2000 to 2003, Mr. Jutkowitz served as the Chief Executive Officer of BXS Ltd. From 1995 to 2002, Mr. Jutkowitz served as the Chief Executive Officer of E.L. Advanced Science Ltd. From 1976 to 2001, Mr. Jutkowitz served as the Chief Financial Officer of Etz Lavud Ltd.

Avichay Nissenbaum has been an external director of the Company since July 2009, and in September 2012, he was reelected to serve a second 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 Winbuyer Ltd. and Tipa-Corp Ltd., as well as certain portfolio companies of Lool Ventures, including Zooz Ltd., Familio Technologies Ltd., Online Permission Technologies and SharePops. Mr. Nissenbaum also serves as a director of "leaders of the Future" NPO. Mr. Nissenbaum holds a B.Sc. in Computer Science and a B.A. in Economics, both from Bar-Ilan University.

Adi Soffer Teeni has been a director of the Company since September 2012. From 2008 to 2011, Ms. Soffer Teeni served as the Managing Director of 888 Holdings Public Limited Company (LON: 888). From 2002 to 2007, she served as the Chief Executive Officer of the Kidum Group Ltd., and from 1998 to 2001, she served as the Chief Executive Officer of Wall Street Institute School of English in Israel. Ms. Soffer Teeni holds an L.L.B. in Law from the Tel-Aviv University and an M.B.A. from Kellogg Recanati.

Josef Mandelbaum has been the Chief Executive Officer of the Company since July 2010 and has served as a director since January 2011. From 1998 to 2010, Mr. Mandelbaum served in various positions at American Greetings Corporation (NYSE: AM), including as Chief Executive Officer of the AG Intellectual Properties group, from 2000 to 2010 and as Senior Vice President of the Sales and Business Development of the AG Interactive group, from 1998 to 2000. Mr. Mandelbaum holds a B.A. in economics from Yeshiva University and an M.B.A. from the Weatherhead School of Management at Case Western Reserve University.

Yacov Kaufman has been the Chief Financial Officer of the Company since November 2005. From 1996 to November 2005, Mr. Kaufman served as the Chief Financial Officer of Acorn Energy Inc. (formerly Data Systems & Software Inc., NASDAQ: ACFN). From 1986 to 1996, Mr. Kaufman served in various positions at dsIT Technologies Ltd., a subsidiary of Acorn, including as its Chief Financial Officer, from 1990 to 1996, and as its comptroller, from 1986 to 1990. From 1993 to 1999, Mr. Kaufman served as a director of Tower Semiconductor Ltd. (NASDAQ: TSEM). Mr. Kaufman is an Israeli Certified Public Accountant and holds a B.A. in accounting and economics from the Hebrew University of Jerusalem and an M.B.A. in business finance from Bar-Ilan University.

Li Carmel has been the Vice President of Human Resources of the Company since November 2009. During 2008, Ms. Carmel served as the VP of Human Resources at Surf Communications Ltd. From 2002 to 2008, Ms. Carmel served as the Human Resources Manager at Radware Ltd. (NASDAQ: RDWR); from 2000 to 2001, she served as the Divisional Human Resources Manager at Nice-Systems Ltd. (NASDAQ and TASE: NICE); and from 1997 to 2000, she served as the Human Resources Recruiter at Orbotech Ltd. (NASDAQ: ORBK). Ms. Carmel holds a B.A. in Psychology and Philosophy, and an M.B.A, all from Tel-Aviv University.

Limor Gershoni Levy has been the Vice President, General Counsel and Corporate Secretary of the Company since January 2011. From 2003 to 2010, Ms. Gershoni-Levy served as General Legal Counsel at Veraz Networks Inc., a company which was listed on NASDAQ (VRAZ) prior to its merger in 2010 with Dialogic Inc. (NASDAQ: DLGC). From 2000 to 2003, Ms. Gershoni-Levy served as the General Counsel at Medigate Ltd. Ms. Gershoni-Levy holds an L.L.B in Law from Essex University, England and an L.L.M. from Tel Aviv University Law School.

Mark Ziering has been the Vice President of Corporate Development of the Company since August 2010. From 1999 to 2008, Mr. Ziering was a partner at Genesis Partners, L.P., a leading Israeli venture capital fund. From 1993 to 1996, Mr. Ziering served as an analyst at Chemical Bank (predecessor to JP Morgan Chase) and, from 1989 to 1991, at the Federal Reserve Bank of New York. Mark holds a B.A. from Yeshiva University and an M.B.A. from Yale University.

Yuval Hamudot has been the General Manager of Smilebox Inc. since September 2012. From September 2011 to September 2012, he served as the Chief Operating Officer of Smilebox. From 2003 to September 2011, Mr. Hamudot served the Company in various positions, including as the Chief Operating Officer from 2010 to 2011, as the Chief Technology Officer from 2007 to 2010, and as a Vice President – Research and Development from 2003 to 2007. From 1994 to 2000, Mr. Hamudot served in the Israeli Defense Force's top computer unit as a project officer responsible for nationwide projects. Mr. Hamudot holds a B.Sc. in Computer Science from Tel Aviv University and an M.B.A. from Bar-Ilan University.

Ron Harari has been the General Manager of the Incredimail Business division of the Company since May 2011. From 2000 to 2011, Mr. Harari served in various positions at ICQ/AOL (NYSE: AOL) including as the Vice President of Web R&D, Vice President Operations and Vice President Products and Operations. From 2005 to 2007, he served as a member of ICQ/AOL's management team. From 1996 to 2000, Mr. Harari served in various positions at Walla! Communications Ltd. (TASE: WALA). From 1993 to 1995, Mr. Harari served as a Computers & Electronics Buyer in the Mission to the U.S. of the Government of Israel. Mr. Harari currently serves as an Advisory Board Member at Vicomi Ltd.

Tomer Pascal has been the General Manager of the Utilities Business division of the Company since January 2012. From 2010 to 2012, Mr. Pascal served as the Vice President of Marketing of the Company. In 2005, Mr. Pascal co-founded bp Interactive Technologies Ltd., and from 2005 to 2009, he served as its Vice President of Marketing and Product Management.

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 (9 persons) for the year ended December 31, 2012, was approximately $3.9 million, which included approximately $0.9 million that was set aside or accrued to provide for pension, retirement, severance or similar benefits. 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. We did not pay our officers who also serve as directors any separate compensation for their directorship during 2012.

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, 2012 was approximately **$**370,000**.** In addition, our directors are reimbursed for expenses incurred in order to attend board or committee meetings.

In the year ended December 31, 2012, we granted options to purchase 617,500 ordinary shares to our directors and officers, at a weighted average exercise price of $7.18 per share, and the latest expiration date for such options is December 2017. These options were granted under our 2003 Israeli Share Option Plan, as amended, (the "2003 Plan"). As of April 24, 2013, options to purchase 300,000 out of the abovementioned ordinary shares have been forfeited.

Pursuant to the requirements of the Companies Law, remuneration of our directors generally requires shareholder approval. In October 2011, our shareholders approved a compensation package for our non-employee directors (other than our external directors) comprised of an annual fee of $35,000, and all other terms of compensation, which were previously approved by our shareholders, including the annual grant of options to purchase our ordinary shares as approved by our shareholders in July 2009, and reimbursement for travel expenses in accordance with our travel reimbursement policy for directors. In September 2012, our shareholders approved the re-election of Mr. Avichay Nissenbaum. In addition, the shareholders approved that upon his appointment, Mr. Nissenbaum will receive compensation in the form of the payment of an annual fee of $25,000 and participation fees (per meeting) of $500 per meeting (plus value added tax ("V.A.T."), if applicable) pursuant to the regulations promulgated under the Companies Law that govern standardized payments to external directors of dual-listed companies. In addition, the shareholders approved an annual grant of options to purchase our ordinary shares pursuant to a grant made to all external directors, as previously approved by our shareholders in July 2009 (see below). Our other external director, Mr. David Jutkowitz was reelected at our 2010 annual general meeting of shareholders, and he receives the same compensation as Mr. Nissenbaum.

In accordance with our shareholders' approval in December 2007, as amended by our shareholders in July 2009, each of our directors who is not an employee of the Company, receives for each year of service, options to purchase 10,000 ordinary shares of the Company (the "Annual Grant"), pursuant to the following terms: (a) the Annual Grant shall be made immediately following the annual meeting of shareholders in the relevant year, commencing with the shareholders meeting held in December 2007; (b) each option shall be exercisable for one ordinary share at an exercise price equal to the closing price of our ordinary shares on the date of the annual meeting of shareholders upon which such option was granted, as reported by the NASDAQ Global Market; (c) the options shall vest in three equal portions on each anniversary of the Annual Grant, commencing with the first anniversary; (d) following termination or expiration of the applicable director's service with the Company, provided that the termination or expiration is not for "cause" (as such term is defined in the 2003 Plan) and not resulting from the director's resignation, the stock options granted to such director shall retain their original expiration dates, and the next upcoming tranche of stock options, of each grant, that are scheduled to vest immediately subsequent to the termination date, if any, shall automatically vest and become exercisable immediately prior to the termination date; and (e) to avoid a possible conflict of interest while discussing a "Change of Control" of the Company (which may result in the termination of the director's term of office), all unvested options held by the director shall automatically vest and become exercisable upon such "Change of Control" event. "Change of Control" is defined for these purposes 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 held by any party (whether directly or indirectly). Any and all other terms and conditions pertaining to the grant of the options shall be in accordance with, and subject to, the 2003 Plan and our standard option agreement.

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 and officers.

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

Under the NASDAQ Listing Rules, a majority of our directors are required to be "independent directors" as defined in the NASDAQ Listing Rules. Six out of the seven members of our board of directors, namely, Messrs. Tamar Gottlieb, Iris Beck, Alan Gelman, David Jutkowitz, Avichay Nissenbaum, and Adi Soffer Teeni, are independent directors under the NASDAQ requirements.

We are also required by the NASDAQ Listing Rules to have an audit committee, all of whose members must satisfy certain independence requirements.

The NASDAQ Listing Rules require that director nominees be selected or recommended for the board's selection either by a committee composed solely of independent directors or by a majority of the independent directors on the board. We have a nominating and governance committee, composed solely of 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.

Our board of directors currently consists of seven 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" 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 2012 annual meeting of shareholders, held on September 27, 2012, Ms. Tamar Gottlieb was reelected as a director for an additional three-year term and Ms. Adi Soffer Teeni was elected as a director for an initial three-year term. At our 2011 annual meeting of shareholders, held on October 27, 2011, Ms. Iris Beck was elected as a director for an initial three-year term. At our 2010 annual meeting of shareholders, held on January 6, 2011, Mr. Josef Mandelbaum was elected as a director for an initial three-year term. The external directors are not assigned to a class and are elected in accordance with the Companies Law. On September 27, 2012, Mr. Avichay Nissenbaum was reelected to serve as an external director for a second three-year term. At our 2010 annual meeting of shareholders, held on January 6, 2011, Mr. David Jutkowitz was reelected to serve as an external director for a second three-year term. In August 2011 our board of directors appointed Mr. Alan Gelman as a director, to fill a vacancy. Mr. Gelman was appointed to serve as a director until the 2013 annual meeting of shareholders, and the election of his successor.

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 operations. Our board of directors has determined that we require at least one director with the requisite financial and accounting expertise and that Mr. David Jutkowitz has such expertise.

Under the Companies Law, the chairman of the board of a company is not permitted to hold another position in the company or a subsidiary thereof other than chairman or director of a subsidiary or, if approved by a special majority of shareholders, chief executive officer of the company.

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 second three-year term commenced on September 27, 2012, and Mr. David Jutkowitz, whose second three-year term commenced on January 6, 2011.

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 are required to possess professional qualifications as set out in regulations promulgated under the Companies Law. Any individual who is eligible to be appointed as a director may be appointed as an external director, provided that such person, such person's relative, partner, employer or any entity under the person's control does not have at the date of appointment, or has not had during the two years preceding the date of appointment, any affiliation with

- the company;
- a controlling shareholder of the company or a relative thereof; or
- any entity controlled by the company or by its controlling shareholder on the date of the appointment or during the two years preceding such date.

The term affiliation means any of:

- an employment relationship;
- a business or professional relationship that is not negligible;
- control; and
- service as an office holder.

No person can serve as an external director if the person's position or other business creates or may create a conflict of interest with the person's responsibilities as an external director, or if it may adversely affect his ability to serve as a director. Until the lapse of two years from termination of office, a company or its controlling shareholder may not employ or give any direct or indirect benefit to the former external director.

If at the time any external director is appointed, all members of the board are the same gender, then the external director to be appointed must be of the other gender.

External directors are elected by a majority vote at a shareholders' meeting, as long as either:

- the majority of shares voted on the matter, including at least a majority of the shares of non-controlling shareholders voted on the matter, vote in favor of election; or
- the total number of shares of non-controlling shareholders voted against the election of the external director does not exceed two percent of the aggregate voting rights in the company.

  The initial term of an external director is three years and such director may be reappointed for up to two additional three-year terms. Thereafter, he or she may be reelected by our shareholders for additional periods of up to three years each only if the audit committee and the board of directors confirm that, in light of the external director's expertise and special contribution to the work of the board of directors and its committees, the reelection for such additional period is beneficial to us. Reelection of an external director may be effected through one of the following mechanisms: (1) the board of directors proposed the reelection of the nominee and the election was approved by the shareholders by the majority required to appoint external directors for their initial term; or (2) a shareholder holding 1% or more of the voting rights proposed the reelection of the nominee, and the reelection is 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. An external director may be removed only in a general meeting, by the same percentage of shareholders as is required for electing an external director, or by a court, and in both cases only if the external director ceases to meet the statutory qualifications for appointment or if he or she has violated the duty of loyalty to us.

In the event of a vacancy created by an external director, our board of directors is required under the Companies Law to call a shareholders' meeting to appoint a new external director as soon as practicable.

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 Mr. David Jutkowitz, Mr. Avichay Nissenbaum and Mr. Alan Gelman, and operates pursuant to a written charter. Mr. Jutkowitz serves as the chairperson of the audit committee.

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. 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 and must include all of the external directors, and the majority of its members must be independent directors. The audit committee may not include the chairman of the board, any director employed by the company or employed by a person or entity controlling the company or by an entity in control of such a controlling person or entity, director who provides services on an ongoing basis to the company, a person or entity controlling the company as well as a director who derives most of his earnings from a controlling entity. The chairperson of the audit committee must be an external director, the required quorum for audit committee meetings and decisions is a majority of the committee members, of which the majority of members present must be independent and external directors, and any person who is not eligible to serve on the audit committee is further restricted from participating in its meetings and votes, unless the chairman of the audit committee determines that such person's presence is necessary in order to present a certain matter, provided however, that company employees who are not controlling shareholders or relatives of such shareholders may be present in the meetings but not for the actual votes, and likewise, company counsel and secretary who are not controlling shareholders or relatives of such shareholders may be present in the meetings and for the decisions if such presence is requested by the audit committee.

The audit committee provides assistance to the 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 approving the services performed by our independent accountants and reviewing their reports regarding our accounting practices and systems of internal accounting controls. The audit committee also oversees the audit efforts of our independent accountants and takes those actions as it deems necessary to satisfy itself that the accountants are independent of management. Under the Companies Law, the audit committee is also required to monitor and approve remedial actions with respect to deficiencies in the administration of the company, including by consulting with the internal auditor and recommend remedial actions with respect to such deficiencies, and to review and approve related party transactions.

Compensation Committee

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. Under a recent amendment 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, pursuant to the amendment, our compensation committee is required to propose for shareholder approval by a special majority, a policy governing the compensation of office holders based on specified criteria, to review, from time to time, modifications to the compensation policy and examine its implementation; to approve the actual compensation terms of office holders prior to approval thereof by the board of directors; and to resolve whether to exempt the compensation terms of a candidate for chief executive officer from shareholder approval. Our compensation committee also oversees the administration of our equity based plan**.**

Our compensation committee consists of Messrs. David Jutkowitz, the chairman of our compensation committee, Ms. Iris Beck and Mr. Avichay Nissenbaum, 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.

Investment Committee

Our investment committee is comprised of Tamar Gottlieb, David Jutkowitz, Avichay Nissenbaum and Josef Mandelbaum. 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 Tamar Gottlieb and David Jutkowitz, 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, the nominations for director are generally made by our directors but may be made by one or more of our shareholders. However, any shareholder or shareholders holding at least 5% of the voting rights in our issued share capital may nominate one or more persons for election as directors at a general meeting only if a written notice of such shareholder's intent to make such nomination or nominations has been given to our secretary and each such notice sets forth all the details and information as required to be provided under our articles of association.

Internal Auditor

Under the Companies Law, the board of directors of a public company must appoint an internal auditor nominated in accordance with 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 him or her a reasonable opportunity to present his or her position to the board and to the audit committee. Mr. Yuli Yardeni of the accounting firm of Yardeni-Gelfand is our internal auditor.

Certain Employment Agreements with Officers

Mr. Josef Mandelbaum has been our Chief Executive Officer since July 2010 and has served as a director since January 2011. Effective July 6, 2010, we entered into an employment agreement with Mr. Mandelbaum, with respect to his services as our Chief Executive Officer (the "CEO Agreement"). The CEO Agreement does not provide for a specified term and may be terminated by either party upon 180 days' prior notice. The CEO Agreement provides for a one-time grant of options upon commencement of employment and an annual grant of options thereafter, the terms of which are substantially in accordance with the 2003 Plan and as is customary in the Company. However, the vesting of the one-time grant of options is also subject to our share price reaching a strike price higher than the market price at the time of grant. Upon termination by us of the employment of Mr. Mandelbaum, other than for "cause" (as defined in the CEO Agreement), we are required to continue to pay Mr. Mandelbaum his salary, benefits and bonus until the end of the 180 day notice period. However, we will have the option to pay Mr. Mandelbaum a lump sum equal to all amounts due as of the notice date. As required by Israeli law, we will also remit severance payment to Mr. Mandelbaum in an amount equal to one month's salary for each year of employment with us following the first year of employment (and a pro rata portion of such monthly salary for each portion of a year of employment following the first year of employment). Such amount of severance payment will be remitted to the executive even if he voluntarily terminates his employment with us. In the event that we terminate the employment of Mr. Mandelbaum for "cause," (as defined in the CEO Agreement), we will not be required to give prior notice and/or to pay the executive severance payment, except for the payments required by Israeli law. In the event that Mr. Mandelbaum resigns without giving the required notice period, we may deduct from the money that we owe Mr. Mandelbaum, including wages, an amount equal to the compensation Mr. Mandelbaum would have been entitled had he worked during the notice period. With regard to the options previously granted, and not yet exercised, in the event that Mr. Mandelbaum resigns: (i) his vested options will be exercisable for one (1) year from the termination date (as such term is defined in the 2003 Plan); and (ii) the amount of unvested options equal to the pro rata options (as such term is defined in Mr. Mandelbaum's option agreement) shall become vested. In the event that Mr. Mandelbaum's employment is terminated by us without "cause" (as defined in the 2003 Plan) (i) vested options will be exercisable until the expiration date (as such term is defined in Mr. Mandelbaum's option agreement) and (ii) the amount of unvested options equal to the pro rata options shall become vested.

Mr. Mandelbaum has agreed not to compete with us during the term of the CEO Agreement and for a period of 180 days thereafter. The CEO Agreement also contains customary confidentiality and intellectual property assignment provisions.

We also have employment agreements with our other executive officers. These agreements 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.

D. EMPLOYEES

As of December 31, 2012 we had 208 employees. The breakdown of our employees by department and fiscal period is as follows:

	December 31,		
	2010	**2011**	**2012**
Management and administration	21	24	30
Support	14	14	11
Research and development	54	69	117
Selling and marketing	18	32	50
Total	107	139	208

As of December 31, 2012, 159 of our employees were located in Israel, and 49 employees were located in the United States. 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 agreement between the Histadrut, which is the General Federation of Labor in Israel, and the Coordination Bureau of Economic Organizations, including the Industrialist's Association of Israel. 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 Industry, Trade and Labor, and which apply such agreement provisions to 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, compensation for working on the day before and after a holiday and payments to pension funds and other conditions for employment. Furthermore, these provisions provide that the wages of most of our employees are adjusted automatically. The amount and frequency of these adjustments are modified from time to time. Additionally, 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. In addition, certain laws prohibit or limit the employer's ability to dismiss its employees in special circumstances. 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. The Company's agreements with employees in Israel, joining the Company since February 2, 2008, are in accordance with section 14 of the Severance Pay Law -1963, whereas, the Company's contributions for severance pay shall be instead of its severance liability. Upon contribution of the full amount from the employee's monthly salary, and release of the policy to the employee, no additional calculations shall be conducted between the parties regarding the matter of severance pay and no additional payments shall be made by the Company to the employee. Further, the related obligation and amounts deposits on behalf of such obligation are not stated on the balance sheet, as they are legally released from obligation to employees once the deposit amounts have been paid.

We currently fund most of our ongoing severance obligations through insurance policies. As of December 31, 2012, our net accrued unfunded severance obligations totaled $0.4 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 18.5% of wages subject to a cap if an employee's monthly wages exceed a specified amount, of which the employee contributes approximately 12% and the employer contributes approximately 6.5%.

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 April 24, 2013 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 or stock options that are presently exercisable or exercisable 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 shareholder in the table has sole voting and investment power for the shares shown as beneficially owned by them. Percentage ownership is based on 12,093,699 ordinary shares outstanding as of April 24, 2013.

Name	Number of Ordinary Shares Beneficially Owned	Percentage of Ordinary Shares Outstanding
Josef Mandelbaum (1)	330,833	2.7%
Yacov Kaufman (2)	141,167	1.2%
All directors and officers as a group (14 persons) (3)	768,867	6.0%

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(1) Represents options to purchase 300,000 ordinary shares at an exercise price of $4.38 per share, which expire on July 5, 2015, 20,000 ordinary shares at an exercise price of $7.50, which expire on January 19, 2016 and 10,833 ordinary shares at an exercise price of $4.04, which expire on January 1, 2017.

(2) Includes options to purchase, 30,000 ordinary shares at an exercise price of $3.51 per share, which expire on May 28, 2013, 20,000 ordinary shares at an exercise price of $6.75 per share, which expire on August 5, 2014, 50,000 ordinary shares at an exercise price of $5.94, which expire on November 1, 2015, 16,666 at an exercise price of $7.50 per share, which expire on January 19, 2016 and 7,500 ordinary shares at an exercise price of $4.04, which expire on January 1, 2017.

(3) Includes options to purchase 709,167 ordinary shares, exercisable within 60 days of this Annual Report.

Employee Benefit Plans

The 2003 Israeli Share Option Plan, as amended, (the "2003 Plan"), our current equity incentive plan, was adopted in 2003, providing certain tax benefits in connection with share-based compensation. The term of the 2003 Plan will expire on December 9, 2022. Please also see Note 11 to our consolidated financial statements included in this annual report for information on the options issued under the 2003 Plan.

Under the 2003 Plan, we may grant to our directors, officers, employees, consultants, advisers, service providers and controlling shareholders options to purchase our ordinary shares. As of December 31, 2012 a total of 4,368,000 ordinary shares are subject to the 2003 Plan. As of April 24, 2013, options to purchase a total of 2,341,594 ordinary shares were outstanding under our 2003 Plan, of which options to purchase a total of 1,414,127 ordinary shares were held by our directors and officers (14 persons) as a group. The outstanding options are exercisable at purchase prices which range from $2.30 to $9.98 per share. Any expired or cancelled options are available for reissuance under the 2003 Plan.

Our Israeli employees, officers and directors may only be granted options under Section 102 ("**Section 102**") of the Israeli Income Tax Ordinance (the "**Tax Ordinance**"), which provides for a beneficial tax treatment, and our non-employees (such as service providers, consultants and advisers) and controlling shareholders may only be granted options under another section of the Tax Ordinance, which does not provide for similar tax benefits. To be eligible for tax benefits under Section 102, options or ordinary shares 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 options until the earlier of (i) the transfer of the options or underlying shares from the trustee to the employee or director or (ii) the sale of the options or underlying shares to any other third party. Our board of directors has resolved to elect the “Capital Gains Route” (under Section 102) for the grant of options to Israeli grantees. Based on such election, and subject to the fulfillment of the provisions of Section 102, under the Capital Gains Route, gains realized from the sale of shares issued upon exercise of options will mostly be taxed at a rate of only 25% and partially at the marginal income tax rate applicable to the employee or director (up to 48% in 2012), provided the trustee holds their options or the underlying shares for 24 months following the date of grant of such options. In the event the requirements of Section 102 for the allocation of options according to the Capital Gains Route are not met, the applicable marginal income tax rates will apply.

The tax treatment with respect to options granted to employees and directors under the 2003 Plan is the result of our election of the Capital Gains Route under Section 102. Section 102 also provides for an income tax track, under which, among other things, the benefit to the employees will be taxed as income, the issuer will be allowed to recognize expenses for tax purposes, and the minimum holding period for the trustee will be 12 months from the date upon which such options are granted.

Our board of directors has determined that it is in our best interests to allow our employees in the United States to participate in our stock option plans for employees. According to the laws in the United States (particularly the U.S. Internal Revenue Code of 1986, as amended (the "Code")) in order for a grant of options to qualify as an “incentive stock option” it must, amongst other requirements, be granted pursuant to a plan which is approved by the stockholders of the granting corporation within 12 months before or after the date such plan is adopted. Therefore, the board of directors has resolved to seek shareholder approval for the adoption of an amendment for U.S. taxpayers to the 2003 Plan (the "U.S. Appendix"), for the award of options to purchase our ordinary shares under the 2003 Plan, all of which may be issued under the U.S. Appendix pursuant to "incentive stock options" within the meaning of the Code. In our annual shareholders meeting, held on October 27, 2011, the 2003 Plan was amended to adopt the U.S. Appendix for U.S taxpayers.

Our board of directors has the authority to administer, and to grant options, under the 2003 Plan. However, the compensation committee appointed by the board provides recommendations to the board with respect to the administration of the plan and also has full power to alter any restrictions and conditions of the options, accelerate the rights of an optionee to exercise options and determine the exercise price of the options. Generally, options granted under the 2003 Plan vest in three equal portions on each anniversary of the date of grant.

The 2003 Plan does not provide for any other acceleration of the vesting period upon the occurrence of certain corporate transactions. However, our board of directors or compensation committee may provide in individual option agreements that if the options are not substituted or exchanged by a successor company, then the vesting of the options shall accelerate.

Adjustments to the number of options or exercise price shall not be made by reason of the distribution of subscription rights (rights offering) on outstanding shares.

In December 2012, our board of directors adopted a compensation policy for employees of the Company according to which the eligibility of employees for option grants under the 2003 Plan was established. Such compensation policy also sets forth guidelines regarding employee salaries and bonuses, for non-executive employees.

See "Item 6.B Compensation" for a description of options granted under the 2003 Plan to our directors.

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 April 24, 2013 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 or stock options that are presently exercisable or exercisable 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)
Holine Finance Ltd.(2)	1,109,732	9.2%

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(1) Based upon 12,093,699 ordinary shares outstanding as of April 24, 2013.

(2) Based solely upon, and qualified in its entirety with reference to, a Schedule 13G/A filed with the SEC on December 10, 2012, by Holine Finance Ltd.

On September 9, 2009, Sprott Asset Management LP ("Sprott") filed a Schedule 13G reporting the beneficial ownership of 462,912, or 5.1%, of our ordinary shares. On January 8, 2010, Sprott filed a Schedule 13G/A reporting that it had beneficial ownership of 417,912, or 4.6%, of our ordinary shares and therefore it had ceased to be the beneficial owner of more than 5% of our outstanding shares.

On January 16, 2010, Yaron Adler filed a Schedule 13G/A reporting that he had beneficial ownership of 914,562, or 9.5%, of our ordinary shares. On February 7, 2013, Yaron Adler filed a Schedule 13G/A reporting that he had beneficial ownership of 496,453, or 4.1%, of our ordinary shares and therefore he had ceased to be the beneficial owner of more than 5% of our outstanding shares.

On February 3, 2011, Ofer Adler filed a Schedule 13D/A reporting that had beneficial ownership of 704,456, or 6.98%, of our ordinary shares. On December 5, 2012, Ofer Adler filed a Schedule 13D/A reporting that he had beneficial ownership of 480,746, or 3.98%, of our ordinary shares and therefore he had ceased to be the beneficial owner of more than 5% of our outstanding shares.

On October 4, 2012, CCM Master Qualified Fund, Ltd. ("CCM"), Coghill Capital Management, L.L.C ("Coghill LLC") and Mr. Clint Coghill jointly filed a Schedule 13G reporting the beneficial ownership of 496,772, or 5.01%, of our ordinary shares. Mr. Coghill is the managing member of Coghill LLC, an entity which serves as the investment manager of CCM. On February 14, 2013, CCM, Coghill LLC and Mr. Coghill jointly filed a Schedule 13G/A reporting the beneficial ownership of 567,616, or 4.72%, of our ordinary shares and therefore they had ceased to be the beneficial owners of more than 5% of our outstanding shares.

On November 9, 2012, Globis Capital Partners, L.P., ("Globis Partners"), Globis Capital Advisors, L.L.C., ("Globis Advisors"), Globis Overseas Fund, Ltd., ("Globis Overseas"), Globis Capital Management, L.P., (the "Investment Manager"), Globis Capital, L.L.C., ("GC"), and Mr. Paul Packer ("Mr. Packer", and together with Globis Partners, Globis Advisors, Globis Overseas, the Investment Manager and GC, the "Globis Reporting Persons") jointly filed a Schedule 13G relating to the beneficial ownership of a total of 535,617, or 5.3%, of our ordinary shares. Globis Advisors serves as the general partner of Globis Partners. The Investment Manager serves as the investment manager to, and has investment discretion over the securities held by, Globis Partners and Globis Overseas. GC serves as the general partner of the Investment Manager. Mr. Packer is the Managing Member of Globis Advisors and GC. Each of Globis Partners and Globis Advisors reported beneficial ownership of 465,097, or 4.6%, of our ordinary shares. Globis Overseas reported beneficial ownership of 70,520, or 0.7%, of our ordinary shares. Each of the Investment Manager, GC and Mr. Packer reported beneficial ownership of 535,617, or 5.3%, of our ordinary shares. On February 14, 2013, the Globis Reporting Persons jointly filed a Schedule 13G/A relating to the beneficial ownership of a total of 519,050, or 4.3%, of our ordinary shares and therefore reporting ceasing to be the beneficial owners of more than 5% of our outstanding shares.

To our knowledge, as of April 24, 2013, we had 8 shareholders of record of which 3 (including 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 82% of our outstanding shares, including shares held through the Depository Trust Company.

B. RELATED PARTY TRANSACTIONS

It is our policy that transactions with office holders or transactions in which an office holder has a personal interest ("Affiliated Transactions") 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.

C. INTERESTS OF EXPERTS AND COUNSEL

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

Our audited consolidated financial statements for the year ended December 31, 2012 are included in this annual report pursuant to Item 18.

Legal Proceedings

We are not aware of any legal proceedings the outcome of which would have a significant impact on the Company's financial condition.

Policy on Dividend Distribution

In November 2010 we announced that as we are focusing on growth and intend to utilize our cash and investments to achieve that growth. Accordingly we decided to change our dividend policy to no longer distribute dividends.

All of the ordinary shares of the Company are entitled to an equal share in any dividends declared and paid.

Buyback Plan

On January 23, 2008 we announced that our board of directors had resolved to adopt a share buyback plan, and on March 25, 2009, we announced that we had elected to continue with the second phase of this plan that authorizes the purchase of up to an additional $1 million of our ordinary shares. The last repurchase of shares occurred in March 2009. We have repurchased a total of 346,019 ordinary shares in open market transactions under the buyback plan.

The distribution of dividends and a buy-back plan is subject to limitations under Israeli law, including permitting the distribution of dividends (and purchasing the company's own shares) only out of profits. See "Item 10.B Memorandum and Articles of Association — Dividend and Liquidation Rights." In addition, the payment of dividends is subject to Israeli withholding taxes. See "Item 10.E Taxation — Israeli Taxation —Taxation of our Shareholders—Taxation of Non-Israeli Shareholders on Receipt of Dividends."

B. SIGNIFICANT CHANGES

Since the date of our audited financial statements included elsewhere in this report, there have not been any significant changes other than as set forth in this report under Item 4.A. – "Recent Developments".

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, and on the NASDAQ Global Market since June 27, 2007, under the symbol "MAIL", and since November 10, 2011, under the symbol "PERI". Our ordinary shares commenced trading on the Tel Aviv Stock Exchange on December 4, 2007 under the symbol "EMAIL", and since November 16, 2011, under the symbol "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.:

	NASDAQ Global Market		Tel Aviv Stock Exchange	
	High ($)	**Low ($)**	**High ($)**	**Low ($)**
Five most recent full financial years				
2012	10.50	3.68	10.45	3.85
2011	8.25	3.45	8.20	3.41
2010	10.75	3.85	10.96	4.04
2009	10.89	2.30	10.46	2.48
2008	5.58	1.86	5.28	2.00
Financial quarters during the past two recent full financial years and any subsequent period				
First Quarter 2013	13.10	8.19	12.79	8.21
Fourth Quarter 2012	10.50	6.66	10.45	6.65
Third Quarter 2012	7.68	4.04	7.38	4.16
Second Quarter 2012	5.20	3.68	5.13	3.81
First Quarter 2012	5.59	3.90	5.59	3.85
Fourth Quarter 2011	5.87	3.45	5.65	3.41
Third Quarter 2011	7.96	4.50	7.77	4.67
Second Quarter 2011	8.25	6.57	7.92	6.44
First Quarter 2011	8.10	6.85	8.20	6.59
Most recent six months				
April 2013 (through April 24)	11.98	9.53	12.08	9.57
March 2013	10.39	8.19	10.06	8.21
February 2013	10.84	8.56	10.48	8.74
January 2013	13.10	9.01	12.79	8.87
December 2012	10.50	8.38	10.45	8.61
November 2012	10.15	7.45	10.31	7.56
October 2012	7.48	6.66	7.85	6.65

* Since our listing on the Tel Aviv Stock Exchange on December 4, 2007.

The closing prices of our ordinary shares, as reported on the NASDAQ and on the TASE on April 24, 2013, were $11.79 and NIS 41.64 (equal to $11.51 based on the exchange rate between the NIS and the dollar, as quoted by the Bank of Israel on April 24, 2013), respectively.

B. PLAN OF DISTRIBUTION

Not applicable.

C. MARKETS

Our ordinary shares are quoted on the NASDAQ Global Market under the symbol "PERI", and on the Tel Aviv Stock Exchange 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.

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 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 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 "special general meetings." Special 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);
- 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;
- appoint auditors; or
- approve most transactions with office holders, 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, the composition and size of the board of directors and the insurance, indemnification and release in advance of the company's office holders with respect to certain liabilities incurred by them 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 days if the meeting is adjourned for the purpose of voting on any of the following matters:

(1) appointment and removal of directors;

(2) approval of certain matters relating to the fiduciary duties of office holders and of certain transactions with interested parties;

(3) approval of certain mergers; and

(4) any other matter in respect of which the articles of association provide that resolutions of the general meeting may be approved by means of a voting document.

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. External directors are elected by a majority vote at a shareholders' meeting, provided that either:

- the majority of shares voted for the election includes at least a majority of the shares held by non-controlling shareholders voted at the meeting and excluding shares held by a person with a personal interest in the approval of the election, excluding a personal interest which is not as a result of his connection with the controlling shareholder (excluding abstaining votes); or

- the total number of shares of non-controlling shareholders voted against the election of the external director does not exceed two percent of the aggregate 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. Each person listed in the table under "Management — Executive Officers and Directors" is an office holder under the Companies Law.

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. A recent amendment to the Companies Law imposes new approval requirements for the compensation of office holders. Every Israeli public company must adopt a compensation policy, recommended by the compensation committee, and approved by the board of directors and the shareholders, in that order, no later than September 2013. The shareholder approval requires a majority of the votes cast by shareholders, excluding any controlling shareholder and those who have a personal interest in the matter (similar to the threshold described below under " – Shareholders"). In general, all office holders' terms of compensation – including fixed remuneration, bonuses, equity compensation, retirement or termination payments, indemnification, liability insurance and the grant of an exemption from liability – must comply with the company's compensation policy. In addition, the compensation terms of directors, the chief executive officer, and any employee or service provider who is considered a controlling shareholder must be approved separately by the compensation committee, the board of directors and the shareholders of the company (by the same majority noted above), in that order. The compensation terms of other officers require the approval of the compensation committee and the board of directors.

Disclosure of personal interest. The Companies Law requires that an office holder promptly disclose to the company any personal interest that he or she may have and all related material information known to him or her, in connection with any existing or proposed transaction by the company. "Personal interest", as defined by the Companies Law, includes a personal interest of any person in an act or transaction of the company, including a personal interest of his relative and of a corporate body in which that person or a relative of that person is a 5% or greater shareholder, a holder of 5% or more of a company's outstanding shares or voting rights, a director or general manager, or in which he or she has the right to appoint at least one director or the general manager, including a personal interest in voting on the basis of a power of attorney that was given to a person by another person even if that other person has no personal interest, and also a vote by a person who got a power of attorney to vote on behalf of a person who do have a personal interest, in the vote in question, all whether the one who votes has a discretion as to how to vote or not. "Personal interest" does not apply to a personal interest stemming merely from the fact that the office holder is also a shareholder in the company.

The office holder must make the disclosure of his personal interest without delay and no later than the first meeting of the company's board of directors that discusses the particular transaction. This duty does not apply to the personal interest of a relative of the office holder in a transaction unless it is an "Extraordinary Transaction". The Companies Law defines an Extraordinary Transaction as a transaction not in the ordinary course of business, not on market terms or that is likely to have a material impact on the company's profitability, assets or liabilities, and defines a relative as a spouse, sibling, parent, grandparent, descendent, as well as descendent, brother, sister or parent of the spouse and the spouse of any of the foregoing.

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, in that situation, shareholder approval is also required.

Shareholders

The Companies Law imposes the same disclosure requirements, as described above, on a controlling shareholder of a public company that it imposes on an office holder. 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.

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.

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 (excluding abstaining votes); 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 more than 25% of the voting rights of a company in which no other shareholder holds more than 25% 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 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 as a private placement that is intended to provide the purchaser with more than 25% of the voting rights of a company in which no other shareholder holds more than 25% of the voting rights, or with more than 45% of the voting rights of a company in which no other shareholder holds more than 45% of the voting rights; (ii) a purchase from a holder of more than 25% of the voting rights of a company that results in a person becoming a holder of more than 25% 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; and

- 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.

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 and any monetary liability imposed on the office holder in favor of a third-party.

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 indemnify or 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.

Our audit committee and board of directors have resolved to indemnify our office holders and directors, where the resolution regarding indemnification of our directors was approved by our shareholders as well, per the terms of the Companies law, to the extent permitted by the Companies Law and by our articles of association for liabilities not covered by insurance and that are of certain enumerated events, subject to an aggregate sum equal to 50.0% of the shareholders equity as set forth in the financial report of the preceding year to which a claim for indemnification is made.

C. MATERIAL CONTRACTS

Search revenues powered by Google's AdSense for Search program contribute significantly to our revenues. In 2012, we obtained approximately 63% of our revenues from this source. On January 31, 2013, we signed an amendment to our agreement with Google extending the term of the agreement to May 31 2013, to coincide with the expiration date of the agreement between SweetIM and Google. On April 23, 2013, we entered into a new agreement with Google, effective from May 1, 2013 to April 30, 2015. The new agreement combines the activities of Perion and SweetIM into one agreement and replaces both of the existing agreements with Google. Our agreement with Google relates to our participation in Google's AdSense program, which allows us to receive a portion of the amount paid to Google by advertisers for the activity performed through our applications. The new agreement, as in past agreements, enables termination by either side after one year with 90 days notice. In addition, Google is entitled to amend the agreement, change its policies and guidelines, and has other limited termination rights.

On July 31, 2011, we signed an Agreement and Plan of Merger with Smilebox Inc., Andrew Wright and Shareholders Representative LLC (the "Acquisition Agreement"), according to which we have purchased 100% of the issued and outstanding equity of Smilebox Inc. The closing of that transaction occurred on August 31, 2011. Following the closing, Smilebox Inc. became a wholly owned subsidiary of Perion Network Ltd., through its Delaware Subsidiary.

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. These companies operate under the "SweetPacks" trade name. Under the terms of the agreement, we paid $10 million in cash and 1.99 million of our ordinary shares at closing, which occurred on November 30, 2012. A second payment of up to $7.5 million in cash is due 12 months after closing, and a third payment of up to $7.5 million in cash is due 18 months after closing, if certain achievements are met. The second payment will be subject to acceleration if we publish a consolidated balance sheet reflecting an aggregate amount of cash, cash equivalents and marketable securities of less than $4.0 million, unless we present evidence of an available credit line in an amount that, together with the foregoing balance, exceeds $4.0 million or we have otherwise remedied the shortfall.

We funded the cash amount paid upon the closing of this acquisition using cash on hand and expect to fund the follow-on payments from operating cash flow. The Share Purchase Agreement includes customary representations, warranties, covenants and indemnification provisions.

On November 30, 2012, we entered into a Registration Rights Agreement with four former shareholders of SweetIM, with respect to the registration with the SEC of an aggregate of 1,537,546 of our ordinary shares issued for the several benefit of such individuals upon the closing of the acquisition. If we initiate a registered offering of securities, such holders would be entitled to include their registerable shares in the registration statement effected pursuant to such offering, subject to certain limitations. We are subject to customary indemnification undertakings with respect to any registration effected on behalf of such individuals. The agreement includes an undertaking by the holders not to sell any shares during the 7-day period before, and the 90-day period after, the effective date of an underwritten public offering.

For information regarding our credit facilities, see Item 5.B "Operating and Financial Review and Prospects – Liquidity and Capital Resources – Credit Facilities."

The employment agreements with our principal officers are described under "Item 6.C Board Practices — Employment Agreements".

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 acts 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

On December 5, 2011, the Israeli Parliament (the Knesset) passed the Law for Tax Burden Reform (Legislative Amendments), 2011 ("the Tax Burden Law") which, among others, canceled effective from 2012, the scheduled progressive reduction in the corporate tax rate. The Law also increased the corporate tax rate to 25% in 2012. Following the amendment, corporate tax rates and capital gains rates are: 2011- 24%, 2012- and thereafter- 25%. However, the effective tax rate payable by a company that derives income from an Approved, Beneficiary or Preferred enterprise (as discussed below) may be considerably less.

Foreign Exchange Regulations

Under the Foreign Exchange Regulations the Israeli company is calculating its tax liability in U.S. dollars according to certain orders. The tax liability, as calculated in U.S. dollars is translated into NIS according to the exchange rate as of December 31st of each year.

Law for the Encouragement of Capital Investments, 1959

The Law for Encouragement of Capital Investments, 1959 (the "Investment Law") provides that capital investments in a production facility (or other eligible assets) may, upon approval by the Investment Center of the Israel Ministry of Industry and Trade (the "Investment Center"), be designated as an Approved Enterprise. Each certificate of approval for an Approved Enterprise relates to a specific investment program, delineated both by the financial scope of the investment and by the physical characteristics of the facility or the asset. The tax benefits from any certificate of approval relate only to taxable income derived from growth in manufacturing revenues attributable to the specific Approved Enterprise. If a company has more than one approval or only a portion of its capital investments are approved, its effective tax rate is the result of a weighted combination of the applicable rates. The tax benefits under the law are not available for income derived from products manufactured outside of Israel.

The benefits available to an Approved Enterprise are conditioned upon terms stipulated in the Investment Law and the regulations thereunder and the criteria set forth in the applicable certificate of approval. If we do not fulfill these conditions in whole or in part, the benefits can be canceled and we may be required to refund the amount of the benefits, with the addition of the Israeli consumer price index linkage differences and interest. We believe that our Approved Enterprises were and continue to be operated in compliance with all applicable conditions and criteria, but there can be no assurance that they will continue to do so.

The Investment Law also provides that an Approved Enterprise is entitled to accelerated depreciation on its property and equipment that are included in an approved investment program.

Tax benefits under the 2005 Amendment

The Amendment to the Investment Law, effective as of April 1, 2005 has significantly changed the provisions of the Investment Law. An eligible investment program under the amendment will qualify for benefits as a “Beneficiary Enterprise” (rather than the previous terminology of Approved Enterprise). Among other things, the amendment provides for tax benefits to both local and foreign investors and simplifies the approval process.

Pursuant to the Amendment, only enterprises receiving cash grants require the approval of the Investment Center. Beneficiary Enterprises which do not receive benefits in the form of governmental cash grants, such as benefits in the form of tax benefits, are no longer required to obtain this approval.

Tax benefits are available under the Amendment to production facilities (or other eligible facilities), which are generally required to derive more than 25% of their business income from export. In order to receive the tax benefits, the Amendment states that the company must make an investment in the Beneficiary Enterprise exceeding a certain percentage or a minimum amount specified in the Law. Such investment may be made over a period of no more than 3 years ending at the end of the year in which the company requested to have the tax benefits apply to the Beneficiary Enterprise (the "**Year of Election**"). Where the company requests to have the tax benefits apply to an expansion of existing facilities, then only the expansion will be considered a Beneficiary Enterprise and the company's effective tax rate will be the result of a weighted average of the applicable rates. In this case, the minimum investment required in order to qualify as a Beneficiary Enterprise is required to exceed a certain percentage or a minimum amount of the company's production assets at the end of the year before the expansion.

The amended Investment Law specifies certain conditions that a Beneficiary enterprise has to comply with in order to be entitled to benefits. These conditions include among others:

- that the Beneficiary Enterprise's revenues during the applicable tax year from any single market (i.e. country or a separate customs territory) do not exceed 75% of the Beneficiary enterprise's aggregate revenues during such year; or

- that 25% or more of the Beneficiary Enterprise's revenues during the applicable tax year are generated from sales into a single market (i.e. country or a separate customs territory) with a population of at least 12 million residents.

The duration of tax benefits is subject to a limitation of the earlier of 7 to 10 years from the Commencement Year (Commencement Year defined as the later of: (i) the first tax year in which the Company had derived income for tax purposes from the Beneficiary Enterprise or (ii) the year in which the Company requested to have the tax benefits apply to the Beneficiary Enterprise – Year of Election), or 12 years from the first day of the Year of Election. The tax benefits granted to a Beneficiary Enterprise are determined, as applicable to its geographic location within Israel.

Similar to the previously available alternative route, exemption from corporate tax on undistributed income for a period of two to ten years, depending on the geographic location of the Beneficiary Enterprise within Israel, and a reduced corporate tax rate of 10% to 25% for the remainder of the benefits period, depending on the level of foreign investment in each year. The tax rate will be 20% if the foreign investment level is more than 49% but less than 74%, 15% if the foreign investment level is more than 74% but less than 90%, and 10% if the foreign investment level is 90% or more. The lowest level of foreign investment during a particular year will be used to determine the relevant tax rate for that year. Benefits may be granted for a term of seven to ten years, depending on the level of foreign investment in the company. If the company pays a dividend out of income derived from the Beneficiary Enterprise during the tax exemption period, such income will be subject to corporate tax at the applicable rate, (10%-25%, depending on the level of foreign investment in the company), in respect of the **gross amount** of the dividend that we may be distributed. The company is required to withhold tax at the source at a rate of 15% from dividends distributed from income derived from the Beneficiary Enterprise.

There can be no assurance that we will comply with the above conditions in the future or that we will be entitled to any additional benefits under the amended Investment Law.

The Amendment changes the definition of "foreign investment" in the Investments Law so that the definition now requires a minimal investment of NIS 5 million by foreign investors. Furthermore, such definition now also includes the purchase of shares of a company from another shareholder, provided that the company's outstanding and paid-up share capital exceeds NIS 5 million. Such changes to the aforementioned definition will take effect retroactively from 2003.

As a result of the amendment, tax-exempt income generated under the provisions of the Investments Law, as amended, will subject us to taxes upon distribution or liquidation.

Pursuant to the amendment to the Investments Law, only Approved Enterprises receiving cash grants require the approval of the Investment Center. Approved Enterprises which do not receive benefits in the form of governmental cash grants, such as benefits in the form of tax benefits, are no longer required to obtain this approval (such enterprises are referred to as Beneficiary Enterprises). However, a Beneficiary Enterprise is required to comply with certain requirements and make certain investments as specified in the amended Investment Law. The amendment to the Investment Law addresses benefits that are granted to Beneficiary Enterprises and the length of the benefits period.

A company that has elected to participate in the alternative benefits program and that subsequently pays a dividend out of the income derived from the Approved Enterprise or Beneficiary Enterprise during the tax exemption period will be subject to corporate tax in respect of the amount distributed at the rate that would have been applicable had the company not elected the alternative benefits program (generally 10% to 25%, depending on the foreign (non-Israeli) investment in it).

Until 2011 (see below "Preferred Enterprise") we had two Approved Enterprise Programs under the Investment Law, which entitle us to certain tax benefits, and Beneficiary Enterprise Programs that began in 2008 and in 2010. The Approved Enterprise Programs granted to us are defined in the Investment Law as Alternative Benefits Programs, which allow for a two years exemption for undistributed income and reduced company tax rate of between 10% and 25% for the following five to eight years, depending on the extent of foreign (non-Israeli) investment in us during the relevant year. The period in which we receive these tax benefits may not extend beyond 14 years from the year in which approval was granted and 12 years from the year in which operations or production by the enterprise began.

In 2009, we changed our dividend policy, committing to distribute 50% of our net income. We applied the required taxes to such dividends as required by the law. In November 2010, we changed our dividend policy, under which we do not intend to distribute cash dividends.

Income derived from sources other than "Approved Enterprise" or "Beneficiary Enterprise" programs during the benefit period will be subject to tax at the regular corporate tax rate.

Tax benefits under the 2011 Amendment

The Knesset 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).

Israeli companies which benefited from an Approved or Beneficiary Enterprise status and met the criteria for qualification as a Preferred Enterprise can elect to apply the new Preferred Enterprise benefits by waiving their benefits under the Approved and Beneficiary Enterprise status.

Benefits granted to a Preferred Enterprise include reduced and gradually decreasing tax rates. In peripheral regions (Development Area A) the reduced tax rate was 10% in 2012, and will be 7% in 2013 and 2014 and 6% starting from 2015. In other regions the tax rate was 15% in 2012, and will be 12.5% in 2013 and 2014 and 12% starting from 2015. 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). A distribution from a Preferred Enterprise out of the "Preferred Income" would be exempt from withholding tax for an Israeli-resident company. A company electing to waive its Beneficiary Enterprise or Approved Enterprise status through June 30, 2015 may distribute "Approved Income" or "Beneficiary Income" subject to 15% withholding tax for Israeli resident individuals and non-Israeli residents (subject to applicable treaty rates) and exempt from withholding tax for an Israeli-resident company. Nonetheless, 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. Since November 2010, the Company has changed its dividend policy, under which it has not distributed and does not intend to distribute dividends.

Commencing 2011 the company elected to apply the new preferred Enterprise benefits.

Pursuant to a recent amendment to the Investments Law which became effective on November 12, 2012, 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 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. Perion is currently reviewing the new amendment and its implications to the company.

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 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. 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.

Taxation of our Shareholders

The Tax Burden Law also increased the tax rate on dividend and capital gains by 5%. As such, starting in 2012, dividends paid to an Israeli resident and to Israeli individuals, are subject to 25%/30% withholding tax depending on ownership percentage, unless reduced by an applicable tax treaty. Capital gains derived by Israeli residents and Israeli individuals, on most instruments are subject to tax at a 25%/30% rate unless an exemption is available under domestic law or an applicable tax treaty.

Capital Gains Taxes Applicable to an 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" (generally a shareholder with 10% or more of the right to profits, right to nominate a director and voting rights) 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. The determination of whether the individual is a substantial shareholder will be made on the date on which the securities are sold. In addition, the individual will be deemed to be a substantial shareholder if at any time during the 12 months preceding the date of sale, he or she was a substantial shareholder.

As of January 1, 2013, shareholders that are individuals who have taxable income that exceeds NIS 800,000 in a tax year (linked to the CPI each year), will be subject to an additional tax, referred to as High Income Tax, at the rate of 2% on their taxable income for such tax year which is in excess of NIS 800,000. For this purpose taxable income will include taxable capital gains from the sale of our shares and taxable income from dividend distributions.

Israeli corporations are generally subject to the corporate tax rate (25%) on capital gains derived from the sale of shares.

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%, which tax will be withheld at source, unless a different rate is provided in a treaty between Israel and the shareholder's country of residence. With respect to a substantial shareholder (which is someone who alone, or together with another person, 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 distribution or at any time during the preceding 12 months period), the applicable tax rate will be 30%.

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 Preferred Enterprise 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 Preferred Enterprise are subject, under certain conditions, to withholding at the rate of 15%. 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.

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 the Tel Aviv Stock Exchange 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 25% or more 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.

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.

U.S. FEDERAL INCOME TAX CONSIDERATIONS

The following discussion is a description of the material U.S. federal income tax considerations applicable to an investment in the ordinary shares by U.S. Holders who acquire our ordinary shares and hold them as capital assets for U.S. federal income tax purposes. 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 created or organized in or under the laws of the United States or of 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 the trust has elected validly to be treated as a U.S. person for U.S. federal income tax purposes or if a U.S. court is able to exercise primary supervision over the trust's administration and one or more U.S. persons have the authority to control all of the trust's substantial decisions.

The term "Non-U.S. Holder" means a beneficial owner of an ordinary share 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 aspects of U.S. federal income tax relevant to a Non-U.S. Holder also are discussed below.

This description is based on provisions of the U.S. Internal Revenue Code of 1986, as amended, referred to in this discussion as the Code, existing and proposed U.S. Treasury regulations and administrative and judicial interpretations, each as available and in effect as of the date of this annual report. These sources may change, possibly with retroactive effect, and are open to differing interpretations. 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 law, including:

- insurance companies;
- dealers in stocks, securities or currencies;
- financial institutions and financial services entities;
- real estate investment trusts;
- regulated investment companies;
- persons that receive ordinary shares as compensation for the performance of services;
- 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;
- expatriates of the United States;
- persons (other than Non-U.S. Holders) having a functional currency other than the U.S. dollar; and
- direct, indirect or constructive owners of 10% or more, by voting power or value, of us.

This discussion also does not consider the tax treatment of persons or partnerships that hold ordinary shares through a partnership or other pass-through entity or the possible application of United States federal gift or estate tax or alternative minimum tax.

We urge you to consult with your own tax advisor regarding the tax consequences of investing in the ordinary shares, including the effects of federal, state, local, foreign and 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 Israeli 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. Subject to the discussion below under "Passive Foreign Investment Company Considerations," distributions in excess of our earnings and profits will be applied against and will reduce the U.S. Holder's tax basis in its ordinary shares and, to the extent they exceed that tax basis, will be treated as gain from a sale or exchange of those ordinary shares. Our dividends 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 Israeli 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. Any gain or loss resulting from currency exchange fluctuations during the period from the date the dividend is includible in the income of the U.S. Holder to the date that payment is converted into U.S. dollars generally will be treated as ordinary income or loss.

A non-corporate U.S. holder's "qualified dividend income" currently is subject to tax at reduced rates not exceeding 20%. For this purpose, "qualified dividend income" generally includes dividends paid by a foreign 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 U.S., or

(b) that corporation is eligible for the benefits of a comprehensive income tax treaty with the U.S. which includes an information exchange program and is determined to be satisfactory by the U.S. Secretary of the Treasury. The Internal Revenue Service has determined that the U.S.-Israel Tax Treaty is satisfactory for this purpose.

In addition, under current law a U.S. Holder must generally hold its ordinary shares for more than 60 days during the 121 day period beginning 60 days prior to the ex-dividend date, and meet other holding period requirements for qualified dividend income.

Dividends paid by a foreign corporation will not qualify for the reduced rates, if such corporation is treated, for the tax year in which the dividend is paid or the preceding tax year, as a "passive foreign investment company" for U.S. federal income tax purposes. We do not believe that we will be classified as a "passive foreign investment company" for U.S. federal income tax purposes for our current taxable year. However, see the discussion under "Passive Foreign Investment Company Considerations" below.

Subject to the discussion below under "Information Reporting and Back-up Withholding," a Non-U.S. Holder generally will not be subject to U.S. federal income or withholding tax on dividends received on ordinary shares unless that income is effectively connected with the conduct by that Non-U.S. Holder of a trade or business in the United States.

Controlled Foreign Corporation Considerations

If more than 50% of either the voting power of all classes of our voting stock or the total value of our stock is owned, directly or indirectly, by citizens or residents of the U.S., U.S. domestic partnerships and corporations or estates or trusts other than foreign estates or trusts, each of which owns 10% or more of the total combined voting power of all classes of stock entitled to vote ("10-Percent Shareholders"), we could be treated as a controlled foreign corporation ("CFC"), for U.S. federal income tax purposes. This classification would, among other consequences, require 10-Percent Shareholders to include in their gross income their pro rata shares of "Subpart F income" (as defined by the Code) and earnings invested in U.S. property (as defined by the Code).

In addition, gain from the sale or exchange of ordinary shares by a U.S. person who is or was a 10-Percent Shareholder at any time during the five-year period ending with the sale or exchange is treated as dividend income to the extent of earnings and profits of the company attributable to the stock sold or exchanged. Under certain circumstances, a corporate shareholder that directly owns 10% or more of voting shares may be entitled to an indirect foreign tax credit for income taxes paid by us in connection with amounts so characterized as dividends under the Code.

If we are classified as both a passive foreign investment company, as described below, and a CFC, we would generally not be treated as a passive foreign investment company with respect to 10-Percent Shareholders. We believe that we are not and will not become a CFC.

Foreign Tax Credit

Any dividend income resulting from distributions we pay to a U.S. Holder with respect to the ordinary shares generally will be treated as foreign source income for U.S. foreign tax credit purposes, which may be relevant in calculating such holder's foreign tax credit limitation. Subject to certain conditions and limitations, Israeli 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. 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. Each prospective purchaser who would be a U.S. Holder should consult with its own tax advisor to determine whether and to what extent it would be entitled to a foreign tax credit.

Disposition of Ordinary Shares

Upon the sale or other disposition of ordinary shares, 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. U.S. Holders should consult their own advisors with respect to the tax consequences of the receipt of a currency other than U.S. dollars upon such sale or other disposition.

In the event there is an Israeli income tax on gain from the disposition of ordinary shares, such tax should generally be the type of tax that is creditable for U.S. tax purposes; however, because it is likely that the source of any such gain would be a U.S. source, a U.S. foreign tax credit may not be available. U.S. shareholders should consult their own tax advisors regarding the ability to claim such credit.

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 are generally subject to a lower marginal U.S. federal income tax rate than ordinary income, other than qualified dividend income, as defined above. The deductibility of capital losses by a U.S. Holder is subject to limitations. In general, any gain or loss recognized by a U.S. Holder on the sale or other disposition of ordinary shares will be U.S. source income or loss for U.S. foreign tax credit purposes. U.S. Holders should consult their own tax advisors concerning the source of income for U.S. foreign tax credit purposes and the effect of the U.S.-Israel Tax Treaty on the source of income.

Subject to the discussion below under "Information Reporting and Back-up Withholding", a Non-U.S. Holder generally will not be subject to U.S. federal income or withholding tax on any gain realized on the sale or exchange of ordinary shares unless:

- that gain is effectively connected with the conduct by the Non-U.S. Holder of a trade or business in the United States, or
- in the case of any gain realized by an individual Non-U.S. Holder, that holder is present in the United States for 183 days or more in the taxable year of the sale or exchange, and other conditions are met.

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. A non-U.S. corporation will be considered a passive foreign investment company for any taxable 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 consists of passive assets, which generally means assets that generate, or are held for the production of, passive income. Passive income may include amounts derived by reason of the temporary investment of funds. If we were classified as a passive foreign investment company, 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 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 year prior to the first taxable year in which we were a passive foreign investment company would be taxed as ordinary income. The amount allocated to each of the other taxable years 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 other taxable years. The tax liability with respect to the amount allocated to 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 passive foreign investment company 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 passive foreign investment company will be subject to the foregoing rules even if we cease to be a passive foreign investment company.

We believe that we are not a passive foreign investment company for U.S. federal income tax purposes, but we cannot be certain whether we will be treated as a passive foreign investment company for the current year or any future taxable year. Our belief that we will not be a passive foreign investment company for the current year is based on our estimate of the fair market value of our intangible assets, including goodwill, not reflected in our financial statements under U.S. GAAP, and our projection of our income for the current year. If the IRS successfully challenged our valuation of our intangible assets, it could result in our classification as a passive foreign investment company. Moreover, because passive foreign investment company status is based on our income and assets for the entire taxable year, it is not possible to determine whether we will be a passive foreign investment company for the current taxable year until after the close of the year. In the future, in calculating the value of our intangible assets, we will value our total assets, in part, based on our total market value determined using the average of the selling price of our ordinary shares on the last trading day of each calendar quarter. We believe this valuation approach is reasonable. While we intend to manage our business so as to avoid passive foreign investment company status, to the extent consistent with our other business goals, we cannot predict whether our business plans will allow us to avoid passive foreign investment company status or whether our business plans will change in a manner that affects our passive foreign investment company status determination. In addition, because the market price of our ordinary shares is likely to fluctuate and the market price of the shares of technology companies has been especially volatile, and because that market price may affect the determination of whether we will be considered a passive foreign investment company, we cannot be certain that we will not be considered a passive foreign investment company for any taxable year.

The passive foreign investment company rules described above will not apply to a U.S. Holder if the U.S. Holder makes an election to treat us as a qualified electing fund. However, a U.S Holder may make a qualified electing fund election only if we furnish the U.S. Holder with certain tax information. We currently do not provide this information, and we currently do not intend to take actions necessary to permit you to make a qualified electing fund election in the event we are determined to be a passive foreign investment company. As an alternative to making this election, a U.S. Holder of passive foreign investment company stock which is publicly-traded may in certain circumstances avoid certain of the tax consequences generally applicable to holders of a passive foreign investment company by electing to mark the stock to market annually and recognizing as ordinary income or loss each year an amount equal to the difference as of the close of the taxable year between the fair market value of the passive foreign investment company stock and the U.S. Holder's adjusted tax basis in the passive foreign investment company stock. Losses would be allowed only to the extent of net mark-to-market gain previously included by the U.S. Holder under the election for prior taxable years. This election is available for so long as our ordinary shares constitute "marketable stock," which includes stock of a passive foreign investment company that is "regularly traded" on a "qualified exchange or other market." Generally, a "qualified exchange or other market" includes a national market system established pursuant to Section 11A of the Exchange Act. A class of stock that is traded on one or more qualified exchanges or other markets is "regularly traded" on an exchange or market for any calendar year during which that class of stock is traded, other than in de minimis quantities, on at least 15 days during each calendar quarter. We believe that the NASDAQ will constitute a qualified exchange or other market for this purpose. However, no assurances can be provided that our ordinary shares will continue to trade on the NASDAQ or that the shares will be regularly traded for this purpose.

The rules applicable to owning shares of a passive foreign investment company 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 passive foreign investment company.

Legislation Regarding Medicare Tax

For taxable years beginning after December 31, 2012, a U.S. Holder that is an individual, estate or a trust that does not fall into a special class of trusts that is exempt from such tax, will be subject to a 3.8% tax on the lesser of (1) the U.S. Holder's "net investment income" for the relevant taxable year and (2) the excess of the U.S. Holder's modified adjusted gross income for the taxable year over a certain threshold (which, in the case of individuals, will be between $125 thousand and $250 thousand depending on the individual's circumstances). A U.S. Holder's "net investment income" may generally include its dividend income and its net gains from the disposition of shares, unless such dividends or net gains are derived in the ordinary course of the conduct of a trade or business (other than a trade or business that consists of certain passive or trading activities). If you are a U.S. Holder that is an individual, estate or trust, you are urged to consult your tax advisors regarding the applicability of the Medicare tax to your income and gains in respect of your investment in the shares.

Information Reporting and Back-up Withholding

In general, U.S. Holders may be subject to certain information reporting requirements under the Code relating to their purchase and/or ownership of stock of a foreign corporation such as us. Failure to comply with these information reporting requirements may result in substantial penalties.

For example, certain legislation generally requires certain individuals who are U.S. Holders to file Form 8938 (Statement of Specified Foreign Assets) to report the ownership of specified foreign financial assets for tax years beginning after March 18, 2010 if the total value of those assets exceeds an applicable threshold amount (subject to certain exceptions). For these purposes, a specified foreign financial asset includes not only a financial account (as defined by the Code and applicable Treasury Regulations) maintained by a foreign financial institution, but also any stock or security issued by a non-U.S. person, any financial instrument or contract held for investment that has an issuer or counterparty other than a U.S. person and any interest in a foreign entity, provided that the asset is not held in an account maintained by a U.S. financial institution. The minimum applicable threshold amount is generally $50 thousand in the aggregate, but this threshold amount varies depending on whether the individual lives in the U.S., is married, files a joint income tax return with his or her spouse, etc. Certain domestic entities that are U.S. Holders may also be required to file Form 8938 in the near future. U.S. Holders are urged to consult with their tax advisors regarding their reporting obligations, including the requirement to file IRS Form 8938.

Information reporting requirements will generally apply to payments with respect to ordinary shares paid to a U.S. Holder other than certain exempt recipients (such as corporations). Backup withholding will apply to such payments if such U.S. Holder fails to provide a taxpayer identification number or certification of other exempt status or fails to comply with the applicable requirements of the backup withholding rules. Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against such U.S. Holder's United States Federal income tax liability provided the required information is furnished by such U.S. Holder to the Internal Revenue Service. A U.S. Holder who does not provide a correct taxpayer identification number may be subject to penalties imposed by the Internal Revenue Service.

Unless otherwise provided by the IRS, if the Company is a PFIC, a U.S. Holder is generally required to file an informational return annually to report its ownership interest in the PFIC.

Non-U.S. Holders generally are not subject to information reporting or back-up withholding with respect to dividends paid on, or upon the disposition of, ordinary shares, provided that such non-U.S Holder certifies to its foreign status, or otherwise establishes an exemption.

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., 4 HaNechoshet Street, Tel-Aviv 69710, Israel, Attention: Yacov Kaufman, Telephone: +972-3-7696100. 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.

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., 4 HaNechoshet Street, Tel-Aviv 69710, Israel.

I. SUBSIDIARY INFORMATION

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Exchange Rate Risk. A significant portion of our revenues and expenses are in foreign currencies. As a result numerous balances are denominated or linked to these currencies. Foreign currency related fluctuations resulted in $170,000 and $102,000 financial income in 2012 and 2011, respectively. These results are components of the exchange rate differences set forth in Note 12(a) to our financial statements.

As of December 31, 2012, balance sheet financial items in U.S. dollars, our functional currency, and those currencies other than the U.S. dollars were as follows:

	U.S. dollars	NIS	Other Currencies	Total
		In thousands of U.S. dollars		
Current assets	38,241	7,823	1,628	47,692
Long-term assets	72,382	3,085	--	75,467
Current liabilities	(41,482)	(8,951)	(1,555)	(51,988)
Long-term liabilities	(15,528)	(933)	--	(16,461)
Total	53,615	1,024	73	54,170

The fair value of firmly committed transactions denominated in currencies other than our functional currency, as of December 31, 2012, was a liability of $238 thousand for less than one year and none for more than one year, all denominated in NIS.

The fair value of derivative instruments and the notional amount of the hedged instruments in NIS, as of December 31, 2012 were as follows:

	Notional Amount	Fair Value
	In thousands of U.S. dollars	
Zero-cost collar contracts to hedge payroll expenses	6,891	238

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 $0.1 million.

A majority of our costs, including salaries, expenses 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 less than one percent (1%). 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,		
	2010	**2011**	**2012**
Average rate for period	3.733	3.578	3.855
Rate at year-end	3.549	3.821	3.733

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.

Interest Rate Risk. The primary objective of our investment activities is to preserve principal while maximizing the interest income we receive from our investments, without increasing risk. Our current investment policy is to invest in dollar denominated or linked debentures, of limited sums, rated "A" or higher and with an average maturity of no more than 3 years. We are exposed to market risks resulting from changes in interest rates relating primarily to our financial investments in cash, deposits and marketable securities. We do not use derivative financial instruments to limit exposure to interest rate risk. Our interest gains may decline in the future as a result of changes in the financial markets. However, as interests rates are already very low, we believe any such potential loss would be immaterial to us.

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 management, including our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our "disclosure controls and procedures" (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of December 31, 2012. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2012, our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act and the rules thereunder, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

(b) Management's Annual Report on Internal Control Over Financial Reporting : Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is a process 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. Our internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Our management recognizes that there are inherent limitations in the effectiveness of any system of internal control over financial reporting, including the possibility of human error and the circumvention or override of internal control. Accordingly, even effective internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation, and may not prevent or detect all misstatements. Further, because of changes in conditions, the effectiveness of internal control over financial reporting may vary over time.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2012. 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." On November 30, 2012, we completed the acquisition of SweetIM. Due to the limited time between the closing date and the fiscal year end, and as permitted by SEC guidance, management excluded from its assessment the acquisition of the SweetIM business, which accounted for less than 1% of consolidated total assets and approximately 7% of consolidated revenues as of and for the year ended December 31, 2012. Our management has concluded, based on its assessment, that our internal control over financial reporting was effective as of December 31, 2012.

(c) Attestation Report of Registered Public Accounting Firm: Not applicable.

(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 Mr. David Jutkowitz, 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 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: www.perion.com.

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):

	2011	2012
Audit Fees	$ 173	$ 181
Tax Fees	150	105
Audit Related fees	39	15
Total	$ 362	$ 301

Audit Fees include fees for professional services rendered by our principal accountant in connection with the audit of our consolidated annual financial statements and review of our unaudited interim financial statements.

Audit Related Fees include consultation regarding financial reporting and due diligence in connection with acquisitions.

Tax fees include: corporate tax returns, international tax, tax implication regarding our status as a PFIC, VAT advice related to dividend distribution and possible acquisitions.

Our audit committee is 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. Pursuant to the pre-approval policy adopted by our audit committee, certain enumerated audit, audit-related and tax services have been granted general pre-approval by our audit committee and need not be specifically pre-approved. Pre-approval fee levels or budgeted amounts for all services to be provided by the independent auditor will be established annually by the audit committee and the committee may also determine the appropriate ratio between the total amount of fees for audit, audit-related, tax services and other services. All requests for services to be provided by the independent auditor will be submitted to our Chief Financial Officer, who will determine whether such services are included within the enumerated pre-approved services. The audit committee will be informed on a timely basis of any pre-approved services that were performed by the auditor. Requests for services that require specific pre-approval will be submitted to the audit committee with a statement as to whether, in the view of the Chief Financial Officer and the independent auditor, the request is consistent with the SEC's rules on auditor independence. The Chief Financial Officer will monitor the performance of all services and determine whether such services are in compliance with the policy.

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 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 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.

Annual Reports. While the NASDAQ Listing Rules generally require that companies send an annual report to shareholders prior to the annual general meeting, we follow the generally accepted business practice for companies in Israel. Specifically, we file annual reports on Form 20-F, which contain financial statements audited by an independent accounting firm, electronically with the SEC and post a copy on our website.

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 (Rule 5630(a)) 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.

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:

ITEM 19. EXHIBITS:

No.	Description
1.1	Memorandum of Association of Registrant. (1)
1.2	Amended and Restated Articles of Association of Registrant, dated February 3, 2006.
4.1	The Registrant's 2003 Israeli Share Option Plan and the U.S. Addendum to such plan.
4.2	Google Search and Advertising Services Agreement, dated December 27, 2010, between the Company and Google Ireland Limited, (2) and the Amendment to said agreement, dated January 31 2013.
4.3	Stock Purchase Agreement among Ofer Adler, the Company and the purchasers listed therein, dated January 24, 2011. (3)
4.4	Registration Rights Agreement among the Company and the investors listed therein, dated January 24, 2011. (3)
4.5	Commitment Letter and Financial Covenants Letter among the Company and Bank Leumi Le-Israel, B.M., dated September 6, 2011, (4) and an amendment thereto.
4.6	Commitment Letter and Financial Covenants Letter among the Company and the First International Bank of Israel, B.M., dated September 6, 2011 (translated from Hebrew), (4) and an amendment thereto (translated from Hebrew).
4.7	Agreement and Plan of Merger, dated July 31, 2011, by and among the Company, Incredimail Inc., Seder Merger Inc., Smilebox, Inc. and Andrew Wright and Shareholder Representative Services LLC, as the Shareholder Representative dated as of July 31, 2011. (4) (5)
4.8	Google Search and Advertising Services Agreement, dated April 23, 2013, between the Company and Google Ireland Limited.*
4.9	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.
4.10	Registration Rights Agreement among the Company and the investors listed therein, dated as of November 7, 2012.
8	List of all subsidiaries.
12.1	Certification required by Rule 13a-14(a) or Rule 15d-14(a) executed by the Chief Executive Officer of the Company.
12.2	Certification required by Rule 13a-14(a) or Rule 15d-14(a) executed by the Chief Financial Officer of the Company.
13.1	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.
13.2	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.
15.1	Consent of Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global, Independent Auditors.
101	The following financial information from Perion Network Ltd.'s Annual Report on Form 20-F for the year ended December 31, 2012, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets at December 31, 2011 and 2012; (ii) Consolidated Statements of Income for the years ended December 31, 2010, 2011 and 2012; (iii) Consolidated Statements of Comprehensive Income for the years ended December 31, 2010, 2011 and 2012; (iv) Statements of Changes in Shareholders' Equity and Comprehensive Income for the years ended December 31, 2010, 2011 and 2012; (v) Consolidated Statements of Cash Flows for the years ended December 31, 2010, 2011 and 2012; and (vi) Notes to Consolidated Financial Statements. (6)

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(1) Previously filed with the SEC on October 25, 2005 as an exhibit to our registration statement on Form F-1 (File No. 333-129246), and incorporated herein by reference.

(2) Previously filed with the SEC on March 8, 2011 as an exhibit to our annual report on Form 20-F, and incorporated herein by reference. Confidential treatment was requested and approved with respect to certain portions of this exhibit pursuant to 17.C.F.R. §§ 230.406 and 200.83. Omitted portions were filed separately with the SEC.

(3) Previously filed with the SEC on March 9, 2011 as an exhibit to our annual report on Form 20-F, and incorporated herein by reference.

(4) Previously filed with the SEC on March 22, 2012 as an exhibit to our annual report on Form 20-F, and incorporated herein by reference.

(5) Confidential treatment was requested and approved with respect to certain portions of this exhibit pursuant to 17.C.F.R. §§ 230.406 and 200.83. Omitted portions were filed separately with the SEC.

(6) In accordance with Rule 406T of Regulation S-T, the information in Exhibit 101 is furnished and deemed not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Exchange Act of 1934, and otherwise is not subject to liability under these sections and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, except as expressly set forth by specific reference in such filing.

* Confidential treatment was requested with respect to certain portions of this exhibit pursuant to 17.C.F.R. §§ 230.406 and 200.83. Omitted portions were filed separately with the SEC.

PERION NETWORK LTD. AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2012

IN U.S. DOLLARS
INDEX

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of

PERION NETWORK LTD.

We have audited the accompanying consolidated balance sheets of Perion Network Ltd. ("the Company") and its subsidiaries as of December 31, 2011 and 2012, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries at December 31, 2011 and 2012, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles.

Tel-Aviv, Israel
XXX, 2013

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

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	December 31,	
	2011	2012
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 11,260	$ 21,762
Restricted cash	-	10,260
Trade receivables (net of allowance for doubtful accounts and sales reserves in a total amount of $ 57 and $ 108 in 2011 and 2012, respectively)	3,265	10,246
Other receivables and prepaid expenses	6,459	5,424
Total current assets	20,984	47,692
LONG-TERM ASSETS:		
Property and equipment, net	1,300	1,522
Other intangible assets, net	6,606	35,295
Goodwill	24,753	37,435
Other assets	1,261	1,215
Total long-term assets	33,920	75,467
Total assets	$ 54,904	$ 123,159

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

CONSOLIDATED BALANCE SHEETS

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

	December 31,	
	2011	2012
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of long term debt	$ -	$ 2,300
Trade payables	3,207	9,560
Deferred revenues	4,280	5,132
Payment obligation related to acquisitions	6,574	20,317
Accrued expenses and other liabilities	6,950	14,679
Total current liabilities	21,011	51,988
LONG-TERM LIABILITIES:		
Long-term debt	-	6,550
Contingent purchase consideration	-	6,078
Deferred revenues	1,120	-
Other long term liabilities	958	3,833
Total long-term liabilities	2,078	16,461
COMMITMENTS AND CONTINGENT LIABILITIES		
SHAREHOLDERS' EQUITY:		
Share capital -		
Ordinary shares of NIS 0.01 par value -		
Authorized: 40,000,000 shares at December 31, 2011 and 2012, respectively; Issued and outstanding: 9,916,194 and 12,064,510 shares at December 31, 2011 and 2012, respectively	22	28
Additional paid-in capital	25,714	45,069
Retained earnings	7,081	10,615
Treasury stock	(1,002)	(1,002)
Total shareholders' equity	31,815	54,710
Total liabilities and shareholders' equity	$ 54,904	$ 123,159

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

CONSOLIDATED STATEMENTS OF INCOME

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

	Year ended December 31,		
	2010	2011	2012
Revenues:			
Search	$ 22,792	$ 25,466	$ 38,061
Products	5,404	7,191	17,574
Other	1,301	2,816	4,588
	29,497	35,473	60,223
Cost of revenues	1,606	2,840	5,230
Gross profit	27,891	32,633	54,993
Operating expenses:			
Research and development, net	6,607	7,453	10,735
Selling and marketing	5,244	12,984	29,517
General and administrative	4,741	7,649	8,560
Total operating expenses	16,592	28,086	48,812
Operating income	11,299	4,547	6,181
Financial income (expense), net	322	1,293	(174)
Income before taxes on income	11,621	5,840	6,007
Taxes on income	3,232	172	2,473
Net income	$ 8,389	$ 5,668	$ 3,534
Net earnings per Ordinary share:			
Basic	$ 0.87	$ 0.58	$ 0.35
Diluted	$ 0.85	$ 0.57	$ 0.34

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,		
	2010	**2011**	**2012**
Net income	$ 8,389	$ 5,668	$ 3,534
Other comprehensive income:			
Reclassification adjustments to income on marketable securities, net of tax	(107)	(100)	-
Other comprehensive income, net of tax	(107)	(100)	-
Comprehensive income	$ 8,282	$ 5,568	$ 3,534

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

U.S. dollars in thousands

	Share capital	Additional paid-in capital	Accumulated other comprehensive income	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of January 1, 2010	$ 21	$ 22,390	$ 207	$ 5,386	$ (1,002)	$ 27,002
Stock based compensation expense	-	761	-	-	-	761
Excess tax benefit from share-based payment arrangements		209				209
Exercise of share options	1	374	-	-	-	375
Dividends	-	-	-	(8,477)	-	(8,477)
Other Comprehensive income	-	-	(107)	-	-	(107)
Net income	-	-	-	8,389	-	8,389
Balance as of December 31, 2010	22	23,734	100	5,298	(1,002)	28,152
Stock based compensation expense	-	1,200	-	-	-	1,200
Exercise of share options	*)	30	-	-	-	30
Dividends	-	-	-	(3,885)	-	(3,885)
Issuance of shares related to acquisition	*)	750	-	-	-	750
Other Comprehensive income	-	-	(100)	-	-	(100)
Net income	-	-	-	5,668	-	5,668
Balance as of December 31, 2011	22	25,714	-	7,081	(1,002)	31,815
Stock based compensation expense	-	1,085	-	-	-	1,085
Exercise of share options	1	75	-		-	76
Issuance of shares related to acquisitions	5	18,195	-	-	-	18,200
Net income	-	-	-	3,534	-	3,534
Balance as of December 31, 2012	$ 28	$ 45,069	-	$ 10,615	$ (1,002)	$ 54,710

*) Represent amount of less than $1

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,		
	2010	2011	2012
Cash flows from operating activities:			
Net income	$ 8,389	$ 5,668	$ 3,534
Adjustments required to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	739	1,388	3,572
Stock based compensation expense, net	761	1,183	1,056
Accretion of payment obligation related to acquisitions	-	100	177
Excess tax benefit from share-based payment arrangements	(209)	-	-
Amortization of premium and accrued interest on marketable securities	42	(16)	-
Loss (gain) from marketable securities, net	(107)	100	-
Deferred taxes, net	(385)	(1,140)	(172)
Accrued severance pay, net	216	(40)	(3)
Net changes in operating assets and liabilities:			
Trade receivables	(475)	(383)	491
Other receivables and prepaid expenses	544	(1,100)	1,658
Other long-term assets	17	60	82
Trade payables	374	108	4,035
Deferred revenues	(106)	998	(268)
Accrued expenses and other liabilities	(25)	112	2,101
Other	8	-	-
Net cash provided by operating activities	9,783	7,038	16,263
Cash flows from investing activities:			
Purchase of property and equipment	(246)	(316)	(662)
Proceeds from sale of property and equipment	12	-	-
Restricted cash	-	90	-
Capitalization of software development and content costs	(180)	(829)	(819)
Cash paid by employees on previously exercised options of acquired company	-	-	727
Cash paid in connection with acquisitions, net of cash acquired	-	(21,712)	(7,307)
Proceeds from sales of marketable securities	10,745	26,704	-
Investment in marketable securities	(20,534)	(11,915)	-
Net cash used in investing activities	(10,203)	(7,978)	(8,061)

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,		
	2010	**2011**	**2012**
Cash flows from financing activities:			
Exercise of share options	375	30	76
Excess tax benefit from share-based payment arrangements	209	-	-
Deferred payment made in connection with acquisitions	-	-	(6,626)
Proceeds from long-term loans	-	-	10,000
Repayment of long-term loans	-	-	(1,150)
Dividend paid	(8,477)	(3,885)	-
Net cash provided by (used in) financing activities	(7,893)	(3,855)	2,300
Increase (decrease) in cash and cash equivalents	(8,313)	(4,795)	10,502
Cash and cash equivalents at beginning of year	24,368	16,055	11,260
Cash and cash equivalents at end of year	$ 16,055	$ 11,260	$ 21,762
Supplemental disclosure of cash flow activities:			
Cash paid during the year for:			
Income taxes	$ 2,719	$ 3,200	$ 2,828
Interest paid	$ -	$ -	$ 291
Supplemental disclosure of non-cash investing activities:			
Purchase of property and equipment on credit	$ 418	$ -	$ -
Issuance of shares in connection with the acquisitions	$ -	$ 750	$ 18,200
stock-based compensation that was capitalized as part of capitalization of software development costs	$ -	$ 17	$ 29

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1:- GENERAL

Perion Network Ltd. ("Perion") and its wholly-owned subsidiaries (collectively referred to as the "Company"), is a digital media company that provides products and services to consumers, focusing on second wave adopters. The Company's products include primarily: IncrediMail, a communication client; Smilebox, a photo sharing and social expression product and service; and Sweet IM, an instant messaging application. The Company generates revenues primarily through search, the sale of premium products and services, and advertising.

The Company was incorporated under the laws of Israel in 1999 and commenced operations in 2000.

In November 2011, the Company changed its name from IncrediMail Ltd. to Perion Network Ltd.
The Company has one major customer which accounted for 70%, 67% and 63% of total revenues, in 2010, 2011 and 2012, respectively. This customer represents 68% and 72% of total trade receivable as of December 31, 2011 and 2012, respectively. Losing this customer could cause a material adverse effect to the Company's results of operations and financial position. The major customer has limited termination rights. On December 27, 2010, the Company signed an agreement with the customer, effective January 1, 2011 through January 31, 2013. On January 31, 2013, the Company signed an amendment to the agreement extending the term of the agreement to May 31, 2013 to coincide with the expiration date of the current agreement between Sweet IM and Google. On April 24, 2013 the Company signed a new agreement with Google, combining the activity of the Company and that of SweetIM, under one agreement, while terminating the previous agreements both Company and SweetIM had, effective May 1, 2013, extending the term again for another two years ending April 30, 2015

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

a. Use of estimates:

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates, judgments and assumptions. The Company's management believes that the estimates, judgments and assumptions used are reasonable based upon information available at the time they are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. On an ongoing basis, the Company's management evaluates estimates, including those related to fair values and useful lives of intangible assets, fair values of stock-based awards, income taxes, and contingent liabilities. 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 assets and liabilities.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

b. Financial statements in U.S. dollars:

The reporting currency of the Company is the U.S. dollar. Most of the Company's revenues are generated in U.S. dollars ("dollar"). In addition, a substantial portion of the Company's costs are incurred in dollars. The Company's management believes that the dollar is the currency of the primary economic environment in which it operates. Thus, the Company's functional currency is the dollar.

Accordingly, monetary accounts maintained in currencies other than the dollar are remeasured into dollars, in accordance with Accounting Standards Codification ("ASC") 830, "Foreign Currency Matters". All transaction gains and losses of the remeasured monetary balance sheet items are reflected in the statement of income as financial income or expenses, as appropriate.

c. Principles of consolidation:

The consolidated financial statements include the accounts of Perion and its subsidiaries. Intercompany balances and transactions have been eliminated upon consolidation.

d. Cash equivalents:

The Company considers short-term unrestricted highly liquid investments that are readily convertible into cash, purchased with original maturities of three months or less to be cash equivalents.

e. Restricted cash:

Restricted cash is primarily due to the payment to former shareholders of Sweet IM (refer to Note 3 for further details). The remaining balance is comprised of deposits used primarily as security for rented premises.

f. Property and equipment:

Property and equipment are stated at cost, net of accumulated depreciation. 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	7 - 15

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

g. 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 amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. For each of the three years in the period ended December 31, 2012, no impairment losses have been identified.

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

h. Goodwill and other intangible assets:

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 at least annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

In accordance with ASC No. 350 the Company performs an annual impairment test at December 31 each year. The first step, identifying a potential impairment, compares the fair value of the reporting unit with its carrying amount. If the carrying amount exceeds its fair value, the second step would need to be performed; otherwise, no further step is required. The second step, measuring the impairment loss, compares the implied fair value of the goodwill with the carrying amount of the goodwill. Any excess of the goodwill carrying amount over the applied fair value is recognized as an impairment loss, and the carrying value of goodwill is written down to fair value. During the years ended December 31, 2010, 2011 and 2012, no impairment losses were recorded.

Intangible assets that are not considered to have an indefinite useful life are amortized over their estimated useful lives, which range from 3 to 10.25 years. The acquired customer arrangements, technology and logo 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.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

i. Revenue recognition:

The Company generates revenues from three major sources; search related advertising, product sales and other advertising.

Search related advertising revenues are generated by receiving a share of the advertising revenues from companies providing search capabilities.

In addition, the Company also derives revenues from: (i) product sales (ii) other. Revenues from products include licensing the right to use its email software, content database, photo sharing and social expression product and e-mail anti spam. Revenues from other services include search related advertising and other advertising. In accordance with ASC 605-50, "Customer Payments and Incentives", the Company accounts for cash consideration given to customers, for whom it does not receive a separately identifiable benefit or cannot, reasonably estimate fair value, as a reduction of revenue rather than as an expense.

Revenues from software license products are recognized when all criteria outlined in ASC 985-605, "Software - Revenue Recognition" are met. Revenues from software license products are recognized when persuasive evidence of an agreement exists, delivery of the product has occurred, the fee is fixed or determinable, and collectability is probable. Company's e-mail product users may also purchase a license to its content database. This content database provides additional Perion Network content files in the form of email background, animation sounds, graphics and e-mail notifies. Content database licensing fees are recognized over the license period. Lifetime licensing revenues were recognized over the estimated usage period of the content database. In accordance with its policy, the Company reviewed the estimated usage period of the lifetime licensing on an ongoing basis. During 2012, the Company notified customers owning its lifetime licenses that they will no longer be able to access the Company’s site for downloading content, requesting they download all the content to their own computer. As result of such change, the Company is no longer required to make content available under those arrangements. Therefore, the remaining deferred revenues balance in the amount of $1,443 associated with these arrangements, was immediately recognized.

Revenues from email anti-spam license fees, photo sharing, social expression product and service are recognized ratably over the term of the license.

Deferred revenues include upfront payments received from customers, for whom revenues have not yet been recognized.

Finally, the Company offers advertisers the ability to place text-based ads on its home page and website and banners in its email clients. Advertisers are charged monthly based on the number of times a user clicks on one of the ads. The Company recognizes revenue from advertisement at that time.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

j. Cost of revenues:

Cost of revenues consists primarily of salaries and related expenses, license fees, amortization of acquired technology, amortization of capitalized research and development costs and payments for content and server maintenance, all related to its product revenues and communicating with its users. The direct cost relating to search and advertising revenues is immaterial.

k. Research and development costs:

Research and development costs incurred in the process of software production before establishment of technological feasibility, are charged to expenses as incurred. Costs of the production of a product master incurred subsequent to the establishment of technological feasibility are capitalized according to the principles set forth in ASC 985-20, "Software - Costs of Software to Be Sold, Leased, or Marketed". Based on the Company's product development process, technological feasibility is established upon completion of the detailed program design ("DPD") (the DPD of a computer software product that takes product function, feature, and technical requirements to their most detailed, logical form and is ready for coding).

Costs incurred by the Company between completion of the DPD and the point at which the product is ready for general release, are capitalized unless considered immaterial.

Capitalized software development costs are amortized commencing with general product release by the straight-line method over the estimated useful life of the software product, which is generally 3 - 5 years.

l. 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 assets and liability account balances are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company provides a valuation allowance, if necessary, to reduce deferred tax assets to their estimated realizable value.

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, on an evaluation of the technical merits, the tax position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

In the year ended December 31, 2010 the Company accrued interest and penalties related to unrecognized tax benefits in its tax expenses. During 2010 interest expense amounted to $ 140. Starting 2011, the Company changed the classification of interest from tax expenses to financial expenses as it distorts its tax expense. Interest for 2011 and 2012 amounted to income of $ 988 and $ 225 respectively. As the amount included in tax expense for interest during 2010 was immaterial, the Company did not reclassify such amounts to conform to current year's presentation.

m. Advertising costs:

Advertising costs are expensed as incurred and consist primarily of customer acquisition cost. Advertising costs for each of the three years in the period ended December 31, 2012 amounted to $ 1,782, $ 8,136 and $ 22,270, respectively.

n. Concentrations of credit risk:

Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash and cash equivalents, restricted cash and trade receivables.

The majority of the Company’s cash and cash equivalents and restricted cash are invested in dollar instruments with major banks in Israel and the U.S. 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 is subject to a low amount of credit risk with respect to sales of the Company’s software products and content database, as these sales are primarily obtained through credit card sales. The Company’s major customer is financially sound, and the Company believes low credit risk is associated with this customer. To date, the Company has not experienced any material bad debt losses.

o. Severance pay:

The Company's liability for severance pay is calculated pursuant to Israel's Severance Pay Law based on its 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 fully provided for by monthly deposits in insurance policies and by an accrual.

The deposited funds include profits (losses) accumulated up to the balance sheet date. The deposited funds may be withdrawn only upon the fulfillment of the obligation pursuant to Israel's Severance Pay Law or labor agreements.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company's agreements with employees in Israel, joining the Company since February 2, 2008, are in accordance with section 14 of the Severance Pay Law, 1963, where the Company's contributions for severance pay shall be instead of its severance liability. Upon contribution of the full amount of the employee's monthly salary, and release of the policy to the employee, no additional calculations shall be conducted between the parties regarding the matter of severance pay and no additional payments shall be made by the Company to the employee. Further, the related obligation and amounts deposited on behalf of such obligation are not stated on the balance sheet, as they are legally released from obligation to employees once the deposit amounts have been paid.

Severance expenses for the years ended December 31, 2010, 2011 and 2012 amounted to $ 786, $ 586 and $ 589, respectively.

p. Net earnings per Ordinary share:

Basic net earnings per Ordinary shares are computed based on the weighted average number of Ordinary shares outstanding during each year. Diluted net earnings per Ordinary share are computed based on the weighted average number of Ordinary shares outstanding during each year, plus dilutive potential Ordinary shares considered outstanding during the year, in accordance with ASC 260, "Earnings Per Share".

The weighted average number of Ordinary shares related to the outstanding options excluded from the calculations of diluted net earnings per Ordinary share, as these securities are anti-dilutive, was 922,069, 1,266,919 and 1,315,106 for the years ended December 31, 2010, 2011 and 2012, respectively.

q. Accounting for 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 payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as an expense over the requisite service periods in the Company's consolidated statement of income. ASC No. 718 requires 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.

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company estimates the fair value of standard stock options granted using the Binomial option-pricing model. The option-pricing models require a number of assumptions, of which the most significant are; volatility and the expected option term. In 2010, expected volatility was calculated based upon an average between historical volatilities of the Company, similar entities and industry sector index similar to the Company's characteristics, since it did not have sufficient company specific data. In 2011 and 2012, expected volatility was calculated based upon actual historical stock price movements. The expected option term was calculated based on the Company's assumptions of early exercise multiples which were calculated based on comparable companies and termination exit rate which was calculated based on actual historical data. The expected option term represents the period that the Company's stock options are expected to be outstanding. The risk-free interest rate is based on the yield from U.S. Treasury zero-coupon bonds with an equivalent term.

In November 2010 the Company's Board decided to change its dividend policy so that beginning with earnings of 2011 and beyond, the Company does not intend to distribute any dividends.

The fair value of the Company's stock options granted to employees and directors was estimated using the following weighted average assumptions:

	Year ended December 31,		
	2010	2011	2012
Risk-free interest rate	1.62%	2.23%	0.75%
Dividend yield	0%-7.83%	0%	0%
Weighted average dividend yield	5.65%	0%	0%
Expected volatility	62.77%-64.56%	47.31%-65.27%	45.60%-61.90%
Weighted average volatility	63.67%	56.29%	53.76%
Expected term (years)	4.6	3.75	4.09

r. Derivative instruments:

The Company accounts for derivatives and hedging based on ASC No. 815, "Derivatives and Hedging". ASC No. 815 requires the Company to recognize all derivatives on the balance sheet at fair value. The accounting for changes in the 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 relationship and further, on the type of hedging relationship.

In order to reduce the impact of changes in foreign currency exchange rates on its results, the Company enters into foreign currency exchange forward contracts and options contracts to purchase and sell foreign currencies to hedge a portion of its foreign currency net exposure resulting from payroll expenses denominated in NIS.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

These instruments were not designated as cash flow hedge as defined by ASC 815, "Derivative and Hedging" and, therefore, the Company recognized the changes in fair value of these instruments in the statement of income as financial income or expense, as incurred. Gains or losses on these derivatives, which partially offset the foreign currency impact from the underlying exposures, and amounted to $ (13), $ (25) and $ 238 for the years ended December 31, 2010, 2011 and 2012, respectively.

The notional value of the Company's derivative instruments as of December 31, 2011 and 2012 amounted to $ 4,300 and $ 6,891, respectively. Notional values are U.S. dollar translated and calculated based on forward rates for forward contracts and based on spot rates for options. Gross notional amounts do not quantify risk or represent assets or liabilities of the Company, but are used in the calculation of settlements under the contracts. The Company measured the fair value of these contracts in accordance with ASC No. 820 and they were classified as level 2.

s. Fair value of financial instruments:

The carrying amounts of financial instruments carried at cost, including cash and cash equivalents, restricted cash, trade receivables, other receivables, trade payables and other liabilities approximate their fair value due to the short-term maturities of such instruments.

The Company follows the provisions of ASC 820, "Fair Value Measurements and Disclosures". Under this standard, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date.

In determining 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 the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the observability of inputs as follows:

- Level 1 - Valuations based on quoted prices in active markets for identical assets that the Company has the ability to access.
- Level 2 - Valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

As of December 31, 2012 and 2011, the Company had cash, cash equivalents and restricted cash of $32,012 and $11,220, respectively, which are classified in the Level 1 hierarchy. Money market funds and treasury notes in the total amount of $ 10 and $ 40, respectively, presented as part of cash and cash equivalents and derivative financial instruments, in the amount of $ 248 and $ (44) respectively, presented in other receivables and prepaid expenses and as part of accrued expenses and other liabilities, respectively, measured using input type Level 2. Payment obligation related to acquisitions (short term and long term) in the amount of $ 16,427 and $ 6,574 respectively, is classified as level 3. Changes in level 3 are primarily attributable to increase related to the Sweet IM acquisition during 2012 (refer to Note 3) and the decrease is primarily due to the payment made during 2012 for Smilebox acquisition (refer to Note 3).

t. Treasury shares:

In the past the Company repurchased its Ordinary shares on the open market and holds those shares as treasury shares. The Company presents the cost to repurchase treasury shares as a reduction of shareholders' equity.

u. Comprehensive income:

The Company accounts for comprehensive income 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 items of other comprehensive income relates to unrealized gains and losses on available for sale securities.

In May 2011, the FASB issued guidance that changed the requirement for presenting "Comprehensive Income" in the consolidated financial statements. The update requires an entity to present the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The update is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 and should be applied retrospectively. The Company adopted this new guidance on January 1, 2012 and elected to present the comprehensive income in two separate but consecutive statements.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

v. Business combinations:

The Company accounted for business combination in accordance with ASC No. 805, "Business Combinations". ASC No. 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 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.

w. Reclassifications:

Certain amounts in prior years' financial statements have been reclassified to conform to the current year's presentation. The reclassification had no effect on previously reported net income or shareholders' equity.

NOTE 3:- ACQUISITIONS

a. Acquisition of Sweet IM Ltd.

On November 30, 2012 ("Closing Date") the Company completed the acquisition of 100% of the shares of Sweet IM Ltd. ("Sweet IM"), an Israeli-based consumer internet company that produces a variety of applications. The financial results of Sweet IM are included in the consolidated financial statements from the Closing Date. The total consideration is composed as follows:

- $ 13,054 in cash, including $ 3,014 for working capital acquired from Sweet IM;
- 1,990,000 ordinary shares of the Company issued at closing for total value of $17,863, which considered the market restrictions on these shares;
- $ 7,500 in cash (subject to certain adjustments), payable within 12 months following the Closing Date (December 2013). In connection with this consideration, the Company recorded a $ 7,324 liability; and
- A milestones-based contingent cash payment of up to $7,500 payable in June 2014. In connection with this contingent payment consideration, the Company recorded at the Closing Date, an estimated liability of $5,992.

In addition, the Company incurred acquisition related costs in a total amount of $ 1,593, which are included in general and administrative expenses for the year ended December 31, 2012. Acquisition related costs include legal, accounting fees and other costs directly related to the acquisition.

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

NOTE 3:- ACQUISITIONS (Cont.)

The primary reasons for this acquisition include; Sweet IM's back-end systems, the talent and professional background of its employees, and its product suite, so as to include other consumer products that bear similar characteristics appealing to its unique demographic segment. A significant amount of the acquisition was recorded as goodwill due to the synergies with Sweet IM.

Under business combination accounting, the total purchase price was allocated to Sweet IM'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.

Cash	$ 2,733
Restricted cash	10,260
Trade receivables	7,473
Other receivables and prepaid expenses	1,253
Property and equipment	216
Long-term prepaid expenses and other	70
Trade payables	(2,318)
Accrued expenses and other liabilities	(5,148)
Payment obligation related to acquisition	(9,958)
Intangible assets	30,756
Deferred tax liability	(3,786)
Goodwill	12,682
Total purchase price	$ 44,233

Intangible assets:

In performing the purchase price allocation, the Company considered, among other factors, analysis of historical financial performance, highest and best use of the acquired assets and estimates of future performance of Sweet IM's products. The fair value of intangible assets was based on 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 Sweet IM acquisition:

	Fair value	Useful life
Technology	$ 20,066	5 years
Logo	5,242	4 years
IP R&D	5,448	(*)
Total intangible assets	$ 30,756	

(*) Will be determined upon completion of the development

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

NOTE 3:- ACQUISITIONS (Cont.)

The following unaudited condensed combined pro forma information for the years ended December 31, 2011 and 2012, gives effect to the acquisition of Sweet IM as if the acquisition had occurred on January 1, 2011. The pro forma information is not necessarily indicative of the results of operations, which actually would have occurred if the acquisition had been consummated on that date, nor does it purport to represent the results of operations for future periods. For the purposes of the pro forma information, the Company has assumed that net income includes additional amortization of intangible assets related to the acquisition of $ 6,484 and $ 6,345 in 2011 and 2012, respectively and related tax effects .

	Year ended December 31,	
	2011	2012
	Unaudited	Unaudited
Revenues	$ $51,190	$ $79,254
Net income	$ 1,154	$ $ 4,887
Basic earnings per share	$ 0.12	$ 0.48
Diluted earnings per share	$ 0.12	$ 0.47

b. Acquisition of Sweet IM Ltd.

On August 31, 2011, the Company completed the acquisition of all of the outstanding shares of Smilebox Inc. ("Smilebox"). The Company included the financial results of Smilebox in its consolidated financial statements from the date of acquisition. Under the Purchase Agreement, the total consideration is composed of cash and Ordinary shares of the Company, as follows:

- $ 24,269 in cash;
- 128,538 Ordinary shares of the Company issuable at closing at fair value of $ 750;
- $ 7,000 in cash and in Ordinary shares of the Company (subject to certain adjustments), payable within 7 months following the closing (March 2012). In connection with this consideration, the Company recorded a $ 6,474 liability at closing. This amount was paid in full in 2012, including $ 6,266 paid in cash and 65,720 shares issued at value of $ 337 and;
- A milestone-based contingent cash and Ordinary shares of the Company payment ("Contingent Payment") of up to $ 8,000 payable in September 2012. The Company recognized a liability of zero with respect to this Contingent Payment, which represents its fair value. No payment was made in September 2012 as the milestones were not met.

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

NOTE 3:- ACQUISITIONS (Cont.)

In addition, the Company incurred acquisition related costs in a total amount of $ 1,069, which are included in general and administrative expenses for the year ended December 31, 2011. Acquisition related costs include compensation to executive, legal and accounting fees directly related to the acquisition.

Smilebox provides a subscription allowing people to connect with family and friends in a creative and personal way. Smilebox enable users to personalize hundreds of unique, multimedia designs with their photos, videos, and music and then share them via print, email, blog or DVD. The main reason for this acquisition was to enrich the Company's product suite to include other consumer products that bear similar characteristics appealing to its unique demographic segment. A significant amount of the acquisition was recorded as goodwill due to the synergies with Smilebox.

Under business combination accounting, the total purchase price was allocated to Smilebox'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.

Cash	$ 2,100
Trade receivables	87
Other receivables and prepaid expenses	616
Property and equipment	191
Long-term prepaid expenses and other	449
Trade payables	(1,268)
Accrued expenses and other liabilities	(1,171)
Deferred revenues	(622)
Intangible assets	6,358
Goodwill	24,753
Total purchase price	$ 31,493

Intangible assets:

In performing the purchase price allocation, the Company considered, among other factors, analysis of historical financial performance, highest and best use of the acquired assets and estimates of future performance of Smilebox's products. The fair value of intangible assets was based on 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 Smilebox acquisition:

	Fair value	Useful life
Customer relationships	$ 1,488	4.3-6.3 years
Technology	3,000	3 years
Trade name	1,870	10.25 years
Total intangible assets	$ 6,358	

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

NOTE 4:- OTHER RECEIVABLES AND PREPAID EXPENSES

	December 31,	
	2011	2012
Government authorities	$ 5,555	3,661
Prepaid expenses	471	1,079
Deferred tax asset, net	258	360
Other	175	324
	$ 6,459	5,424

NOTE 5:- PROPERTY AND EQUIPMENT, NET

	December 31,	
	2011	2012
Cost:		
Computers and peripheral equipment	$ 3,861	$ 3,745
Office furniture and equipment	533	670
Leasehold improvements	606	618
	5,000	5,033
Accumulated depreciation	3,700	3,511
Property and equipment, net	$ 1,300	$ 1,522

Depreciation expenses totaled $ 627, $ 588 and $ 657 for the years ended December 31, 2010, 2011 and 2012, respectively.

During 2011 and 2012 the Company recorded a reduction of $ 10 and $ 846 respectively, to the cost and accumulated depreciation for fully depreciated equipment no longer in use.

NOTE 6:- GOODWILL AND OTHER INTANGIBLE ASSETS, NET

a. Goodwill:

The changes in the carrying amount of goodwill for the years ended December 31, 2012 and 2011 are as follows:

	2011	2012
Balance as of January 1	$ -	24,753
Changes during year	24,753	12,682
Balance as of December 31	$ 24,753	37,435

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

NOTE 6:- GOODWILL AND OTHER INTANGIBLE ASSETS, NET (Cont.)

b. Other intangible assets, net

Net other intangible assets consisted of the following:

	Useful life	December 31, 2011	December 31, 2012
Original amount:			
Capitalized software development costs	3-5	$ 739	$ 1,587
Capitalized content costs and domain	3-5	555	556
Technology	3-5	3,000	23,066
Trade name	10.25	1,870	1,870
Customer relationship	4.3-6.3	1,488	1,488
Logo	5	-	5,242
IP R&D		-	5,448
		7,652	39,257
Accumulated amortization:			
Capitalized software development costs		22	398
Capitalized content costs and domain		368	485
Technology		333	1,822
Trade name		61	243
Customer relationship		262	913
Logo		-	101
		1,046	3,962
		$ 6,606	$ 35,295

c. Amortization expense amounted to $ 112, $ 800 and $ 2,915 for the years ended December 31, 2010, 2011 and 2012, respectively.

d. The estimated future amortization expense of other intangible assets as of December 31, 2012 is as follows:

2013	9,686
2014	9,853
2015	7,539
2016	5,393
2017 and thereafter	2,824
	$ 35,295

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

NOTE 7:- ACCRUED EXPENSES AND OTHER LIABILITIES

	December 31,	
	2011	2012
Employees and payroll accruals	$ 1,556	3,865
Government authorities	1,429	3,812
Uncertain tax position liability	2,151	3,952
Deferred tax liabilities, net	-	971
Accrued expenses and other	1,814	2,079
	$ 6,950	14,679

NOTE 8:- COMMITMENTS AND CONTINGENT LIABILITIES

The facilities of the Company are rented under operating lease agreements that expire in 2015. The Company leases its motor vehicles and servers under cancelable operating lease agreements.

Aggregate minimum lease commitments under operating leases as of December 31, 2012, were as follows:

2013	$ 1,173
2014	1,145
2015	586
	$ 2,904

Total rent expenses for the years ended December 31, 2010, 2011 and 2012 amounted to $ 503, $ 586 and $ 967, respectively.

Total lease expenses for the years ended December 31, 2010, 2011 and 2012 amounted to $ 395, $ 349 and $ 234, respectively.

NOTE 9:- LONG-TERM LOAN

a. On May 17, 2012, the Company entered into Loan Agreements (the "Agreements"), with two Israeli Banks (the "Banks"), based on which the Company borrowed $10,000

The Agreements contain various provisions including a pledge of all the Company's assets under a floating charge, compliance with certain financial covenants, restrictive covenants, including negative pledges, and other commitments, typically contained in facility agreements of this type. As of December 31, 2012, the Company was in compliance with all covenants.

The loans shall be repaid in 16 and 20 equal quarterly installments, respectively starting July 17, 2012. Interest rates applicable are 4.35% and 4.64%, payable monthly starting May 17, 2012.

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

NOTE 9:- LONG-TERM LOAN (Cont.)

b. As of December 31, 2012, the aggregate principal annual maturities according to the loan agreement are as follows:

	Repayment amount
2013 (current maturities)	$ 2,300
2014	2,300
2015	2,300
2016	1,550
2017	400
Total	$ 8,850

NOTE 10:- INCOME TAXES

a. Tax benefits under the Israel Law for the Encouragement of Capital Investments, 1959 (the "Law"):

Various industrial programs of the Company had been granted "Approved Enterprise" and "Beneficiary Enterprise" status, which provides certain benefits, including tax exemptions and reduced tax rates. Income not eligible for Approved Enterprise and Beneficiary Enterprise benefits is taxed at a regular rate.

In the event dividends are distributed from tax-exempt income, the amount distributed will be subject to corporate tax at the rate ordinarily applicable to the Approved Enterprise's income. Tax-exempt income generated under the Company's Beneficiary Enterprise program will be subject to taxes upon dividend distribution or complete liquidation. The entitlement to the above benefits is conditional upon the Company's fulfilling the conditions stipulated by the Law and regulations published thereunder. Should the Company fail to meet such requirements in the future, income attributable to its Approved Enterprise and Beneficiary Enterprise programs could be subject to the statutory Israeli corporate tax rate and the Company could be required to refund a portion of the tax benefits already received, with respect to such programs. As of December 31, 2012, management believes that the Company is in compliance with the Law’s conditions.

In November 2010 the Company's Board decided to change its dividend policy whereby the Company does not intend to distribute dividends from earnings of 2011 and beyond. As of December 31, 2012, tax exempt income incurred up to December 31, 2010 that was not distributed was approximately $ 8,900. Should this amount be distributed, it would be taxed at the corporate tax rate applicable to such profits (currently 25%), and an income tax liability of up to approximately $ 2,225 would be incurred.

NOTE 10:- INCOME TAXES (Cont.)

The Investment Law, was subject to a reform effective January 2011. According to the reform a flat tax rate will apply to companies eligible for the "Preferred Enterprise" status. In order to be eligible for Preferred Enterprise status, a company must meet minimum requirements establishing that it contributes to the country's economic growth and is a competitive factor for the Gross Domestic Product (a competitive enterprise). Israeli companies which currently benefit from an Approved or Beneficiary Enterprise status and meet the criteria for qualification as a Preferred Enterprise can elect to apply the new Preferred Enterprise benefits by waiving their benefits under the Approved and Beneficiary Enterprise status.

Commencing 2011, the Company elected to apply the new Preferred Enterprise benefits. Benefits granted to a Preferred Enterprise include reduced and gradually decreasing tax rates. The tax rate is 15% in 2011 and 2012, 12.5% in 2013 and 2014 and 12% starting from 2015.

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). A distribution from a Preferred Enterprise out of the "Preferred Income" would be exempt from withholding tax for an Israeli-resident company.

b. Corporate tax rates in Israel:

Taxable income of Israeli companies is subject to the Israeli corporate tax at the following rates: 2010 - 25%, 2011 - 24%, 2012 – 25%.

c. Income taxes of non-Israeli subsidiaries:

Non-Israeli subsidiaries are taxed according to the tax laws in their respective countries of residence.

d. Tax reports filed by the Company and its subsidiaries in Israel through the year ended December 31, 2008 are considered final. The U.S tax returns of the U.S subsidiaries remain subject to examination by the U.S tax authorities for the tax years beginning on December 31, 2008.

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

NOTE 10:- INCOME TAXES (Cont.)

e. Tax loss carry-forwards:

The company has a Net operating loss carry-forwards in the United States as of December 31, 2012 of approximately $ 20,000.

Net operating losses in the U.S. may be carried forward through periods which will expire in the years starting from 2026 up to 2031. 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.

f. Deferred tax assets, net:

Deferred taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

Components of the Company's deferred tax assets (liabilities) are as follows:

	December 31,	
	2011	2012
Deferred tax assets:		
Net operating loss carry forwards	$ 6,821	$ 7,800
Other	331	500
Deferred tax assets, before valuation allowance	7,152	8,300
Valuation allowance	(4,113)	(6,254)
Total deferred tax assets, net of valuation allowance	3,039	2,046
Deferred tax liabilities:		
Intangible assets	(2,281)	(5,248)
Deferred revenues	(427)	-
Capitalized software development costs	(85)	(148)
Total deferred tax liabilities	(2,793)	(5,396)
Deferred tax asset (liability), net	$ 246	$ (3,350)

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

NOTE 10:- INCOME TAXES (Cont.)

Domestic:

	December 31,	
	2011	2012
Current deferred tax asset, net	$ 258	$ 360
Current deferred tax liability	-	(971)
Non-current deferred tax asset, net	-	140
Long-term deferred tax liability	(12)	(2,879)
	$ 246	$ (3,350)

Current deferred tax assets, net, is included within other receivables and prepaid expenses in the balance sheets. Current deferred tax liability, net, is included within accrued expenses and other liabilities in the balance sheets. Non-current deferred tax asset, net is included within other assets on the balance sheets

g. Reconciliation of the Company's effective tax rate to the statutory tax rate in Israel

	Year ended December 31,		
	2010	2011	2012
Income before taxes on income	$ 11,621	$ 5,840	$ 6,007
Statutory tax rate in Israel	25%	24%	25%
Theoretical income tax expense	$ 2,905	$ 1,402	$ 1,502
Increase (decrease) in tax expenses resulting from:			
"Preferred Enterprise" benefits (*)	-	(1,751)	(1,369)
Non-deductible expenses	230	78	757
Previous years taxes	-	(156)	-
Tax on previously distributed dividend from tax-exampt income	-	-	812
Loss and timing differences for which no deferred taxes were recorded	-	994	1,009
Tax adjustment in respect of different tax rate of foreign subsidiary	-	(400)	(151)
Other	97	5	(87)
Taxes on income	$ 3,232	$ 172	$ 2,473
(*) Benefit per Ordinary share, resulting from " Preferred Enterprise " status:			
Basic	$ -	$ 0.18	$ 0.13
Diluted	$ -	$ 0.18	$ 0.13

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

NOTE 10:- INCOME TAXES (Cont.)

h. Income taxes are comprised as follows:

	Year ended December 31,		
	2010	2011	2012
Deferred tax benefit	$ (385)	$ (1,140)	$ (172)
Current taxes	3,617	1,312	2,645
	$ 3,232	$ 172	$ 2,473

i. Uncertain tax position:

Reconciliation of the beginning and ending balances of unrecognized tax benefits

	December 31,	
	2011	2012
Balance at January 1	$ 1,388	$ 2,151
Additions for prior year tax positions	505	622
Additions in tax positions for current year	258	1,179
Balance at December 31	$ 2,151	$ 3,952

j. Income before taxes on income is comprised as follows:

	Year ended December 31,		
	2010	2011	2012
Domestic	$ 11,553	$ 8,325	$ 8,530
Foreign - U.S.A	68	(2,485)	(2,523)
	$ 11,621	$ 5,840	$ 6,007

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

NOTE 11:- SHAREHOLDERS' EQUITY

a. Ordinary share:

The Ordinary shares 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. In January 6, 2011 the shareholders resolved to increase the authorized share capital of the Company to 40,000,000 Ordinary shares with a nominal value of NIS 0.01 each.

b. Share option plans:

In 2003, the Company adopted a share option plan ("the 2003 Plan"). Under the 2003 Plan, employees, officers and non-employees may be granted options to acquire Ordinary shares. Pursuant to the 2003 Plan, the Company has reserved for issuance a total of 4,368,000 Ordinary shares. As of December 31, 2012, 1,005,173 options were still available for future grant under the 2003 Plan.

Options granted under the 2003 Plan vested over three years from the grant date. The options expire no later than five years from the date of grant.

A summary of the activity in the share options granted to employees, non-employees and directors for the year ended December 31, 2012 and related information is as follows:

		Weighted average		
	Number of options	Exercise price	Remaining contractual term (in Years)	Aggregate intrinsic value
Outstanding at January 1, 2012	1,776,072	$ 5.87	3.39	$ 113
Granted	1,060,501	$ 6.19		
Exercised *)	(209,067)	$ 4.41		
Cancelled	(221,206)	$ 6.12		
Forfeited	(82,666)	$ 7.09		
Outstanding at December 31, 2012 **)	2,323,634	$ 6.09	3.38	$ 6,971
Exercisable at December 31, 2012 ***)	694,005	$ 5.72	2.31	$ 2,278

*) During 2012, 25,000 share options were exercised in consideration for cash received in an amount of $ 76 and 184,067 share options were exercised under net-share settlement.

**) Represents intrinsic value of 1,930,300 outstanding options that are in-the-money as of December 31, 2012. The remaining 393,334 outstanding options are out of the money as of December 31, 2012, and their intrinsic value was considered as zero.

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

NOTE 11:- SHAREHOLDERS' EQUITY (Cont.)

***) Represents intrinsic value of 650,672 exercisable options that are in-the-money as of December 31, 2012. The remaining 43,333 outstanding options are out of the money as of December 31, 2012, and their intrinsic value was considered as zero.

The weighted-average grant-date fair value of options granted during the years 2010, 2011 and 2012 was $ 1.23, $ 2.29 and $ 1.83, respectively.

As of December 31, 2012, the total compensation cost related to options granted to employees, not yet recognized, amounted to $ 2,278. The cost is expected to be recognized over a weighted average period of 2.37 years.

Aggregate intrinsic value of options exercised in 2010, 2011 and 2012 amounted to $ 713, $ 580 and $ 555, respectively.

The options outstanding under the Company's Stock Option Plans as of December 31, 2012 have been separated into ranges of exercise price as follows:

	Outstanding			Exercisable	
Ranges of exercise price	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of options	Weighted average exercise price
2.30-3.51	50,000	0.52	3.27	50,000	3.27
4.04-4.38	997,168	3.39	4.23	300,000	4.38
5.12-5.99	299,336	3.12	5.80	33,334	5.61
6.04-6.93	229,004	2.68	6.65	145,670	6.62
7.11-7.85	354,792	3.12	7.47	121,667	7.49
9.14-9.98	393,334	4.59	9.80	43,334	9.98
	2,323,634			694,005	

Stock-based compensation was recorded in the following items

	Year ended December 31,		
	2010	2011	2012
Cost of sales	$ 7	$ 10	$ 16
Research and development	145	108	221
Selling and marketing	151	78	168
General and administrative	458	987	651
Total Expenses	$ 761	$ 1,183	$ 1,056

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

NOTE 12:- SUPPLEMENTARY DATA ON SELECTED CONSOLIDATED STATEMENTS OF INCOME ITEMS

a. Financial income, net:

	Year ended December 31,		
	2010	2011	2012
Financial income:			
Interest from bank deposits and marketable securities	$ 449	$ 304	29
Gains from marketable securities, net	-	71	-
Exchange rate differences , net	-	102	170
Interest from government authorities, net	-	988	225
	449	1,465	424
Financial expenses:			
Losses from marketable securities, net	38	-	-
Exchange rate differences , net	45	-	-
Accretion of payment obligation related to acquisitions	-	100	177
Interest with respect to long-term loans	-	-	373
Other	44	72	48
	127	172	598
	$ 322	$ 1,293	(174)

b. Research and development costs, net:

	Year ended December 31,		
	2010	2011	2012
Total costs	$ 6,607	$ 8,192	$ 11,583
Capitalized software development costs	-	(739)	(848)
	$ 6,607	$ 7,453	$ 10,735

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

NOTE 12:- SUPPLEMENTARY DATA ON SELECTED CONSOLIDATED STATEMENTS OF INCOME ITEMS (Cont.)

c. Net earnings per Ordinary share:

Computation of basic and diluted net earnings per share is as follows:

1. Numerator:

	Year ended December 31,		
	2010	2011	2012
Net income available to Ordinary shareholders	$ 8,389	$ 5,668	$ 3,534

2. Denominator:

	Year ended December 31,		
	2010	2011	2012
Weighted average number of Ordinary shares, net of treasury stock	9,622,181	9,796,380	10,159,049
Effect of dilutive securities:			
Add - stock options	209,447	205,791	207,759
Adjusted weighted average shares	9,831,628	10,002,171	10,366,808

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/ Josef Mandelbaum
Josef Mandelbaum
Chief Executive Officer

Date: April 29, 2013

EXHIBIT INDEX

No.	Description
1.2	Amended and Restated Articles of Association of Registrant, dated February 3, 2006.
4.1	The Registrant's 2003 Israeli Share Option Plan and the U.S. Addendum to such plan.
4.2	Amendment to Google Search and Advertising Services Agreement, dated January 31 2013.
4.5	Amendment to the Commitment Letter and Financial Covenants Letter among the Company and Bank Leumi Le-Israel, B.M., dated May 10, 2012.
4.6	Amendment to Commitment Letter and Financial Covenants Letter among the Company and the First International Bank of Israel, B.M., dated April 15, 2012 (translated from Hebrew).
4.8	Google Search and Advertising Services Agreement, dated April 23, 2013, between the Company and Google Ireland Limited.*
4.9	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.
4.10	Registration Rights Agreement among the Company and the investors listed therein, dated as of November 7, 2012.
8	List of all subsidiaries.
12.1	Certification required by Rule 13a-14(a) or Rule 15d-14(a) executed by the Chief Executive Officer of the Company.
12.2	Certification required by Rule 13a-14(a) or Rule 15d-14(a) executed by the Chief Financial Officer of the Company.
13.1	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.
13.2	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.
15.1	Consent of Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global, Independent Auditors.
101	The following financial information from Perion Network Ltd.'s Annual Report on Form 20-F for the year ended December 31, 2012, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets at December 31, 2011 and 2012; (ii) Consolidated Statements of Income for the years ended December 31, 2010, 2011 and 2012; (iii) Consolidated Statements of Comprehensive Income for the years ended December 31, 2010, 2011 and 2012; (iv) Statements of Changes in Shareholders' Equity and Comprehensive Income for the years ended December 31, 2010, 2011 and 2012; (v) Consolidated Statements of Cash Flows for the years ended December 31, 2010, 2011 and 2012; and (vi) Notes to Consolidated Financial Statements. (1)

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(1) In accordance with Rule 406T of Regulation S-T, the information in Exhibit 101 is furnished and deemed not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Exchange Act of 1934, and otherwise is not subject to liability under these sections and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, except as expressly set forth by specific reference in such filing.

* Confidential treatment was requested with respect to certain portions of this exhibit pursuant to 17.C.F.R. §§ 230.406 and 200.83. Omitted portions were filed separately with the SEC.

Exhibit 1.2

THE COMPANIES LAW, 5759-1999

A COMPANY LIMITED BY SHARES

AMENDED AND RESTATED ARTICLES OF ASSOCIATION

OF

PERION NETWORK LTD.

PRELIMINARY

1. In these Articles, unless the context otherwise requires:

"Articles" shall mean the Articles of Association of the Company as shall be in force from time to time.

The "Board" shall mean the Company's board of directors.

The "Company" shall mean Perion Network Ltd.

"External Directors" shall mean directors appointed and serving in accordance with Part VI, Chapter 1, Article E of the Law.

The "Law" shall mean the Companies Law, 5759-1999, as it may be amended from time to time, and any regulations promulgated thereunder.

The "Office" shall mean the registered Office of the Company as it shall be from time to time.

"Office Holder" shall have the meaning ascribed to such term under the Law.

The "Ordinance" shall mean the Companies Ordinance (New Version) 1983, as amended, and any regulations promulgated thereunder, that are still in effect from time to time.

"Seal" shall mean any of: (1) the rubber stamp of the Company; (2) the facsimile signature of the Company, or (3) the electronic signature of the Company as approved by the Board.

A "Shareholder" shall mean any person that is the owner of at least one share, or any fraction thereof, in the Company, in accordance with Section 177 of the Law.

The "Shareholders Register" shall mean the register of Shareholders kept pursuant to Section 127 of the Law or, if the Company shall keep branch registers, any such branch register, as the case may be.

"Writing" shall mean handwriting, typewriting, facsimile, print, email, lithographic printing and any other mode or modes of presenting or reproducing words in visible form.

In these Articles, subject to this Article and unless the context otherwise requires, expressions defined in the Law or any modification thereof in force at the date on which these Articles become binding on the Company, shall have the meaning so defined; and words importing the singular shall include the plural, and vice versa; words importing the masculine gender shall include the feminine; and words importing persons shall include companies, partnerships, associations and all other legal entities. The titles of the Articles or of a chapter containing a number of Articles are for convenience of reference only and are not to be considered in constructing these Articles.

PUBLIC COMPANY; LIMITED LIABILITY AND COMPANY OBJECTIVES

2. The Company is a public company as such term is defined in Section 1 of the Law. The liability of the Company's Shareholders is limited and, accordingly, each Shareholder's responsibility for the Company's obligations shall be limited to the payment of the nominal value of the shares held by such Shareholder, subject to the provisions of these Articles and the Law.

3. The Company's objectives are:

3.1. The development, manufacture and marketing of software;

3.2. Any other objective as determined by the Board.

CAPITAL

4. Share Capital

The share capital of the Company shall consist of NIS 400,000 consisting of 40,000,000 ordinary shares (the "Ordinary Shares"), each having a nominal value of NIS 0.01. The powers, preferences, rights, restrictions, and other matters relating to the Ordinary Shares are as set forth in the Articles. Warrants and options shall not be considered as shares for purposes of the Articles.

The Ordinary Shares will rank *pari passu* with one another in all respects. Each Ordinary Share shall confer on the holder thereof the right to receive dividends in cash, shares or other securities or assets, the right to participate in a distribution of the Company's assets at the time of its winding-up and the right to receive notices to and to attend and vote (one vote in respect of each Ordinary Share) in every vote at each general meeting of the Shareholders.

5. Allotment of Shares

Subject to the Law and the Articles and to the terms of any resolution creating new shares, (a) the unissued shares from time to time shall be under the control of the Board, which may allot the same to such persons, against cash, or for such other consideration that is not cash, with such restrictions and conditions, in excess of their nominal value, at their nominal value, or at a discount to their nominal value and/or with payment of commission, and at such times as the Board shall deem appropriate and (b) the Board shall have the power to cause the Company to grant to any person the option to acquire from the Company any unissued shares, in each case on such terms as the Board shall deem appropriate.

6. Bearer Shares

The Company shall not issue bearer shares or exchange a share certificate for a bearer share certificate.

7. Special Rights

Subject to the Law and the Articles, and without prejudice to any special rights previously conferred upon the holders of any existing shares or class of shares, the Company may, by resolution of the Shareholders, from time to time, create shares with such preferential, deferred, qualified or other special rights, privileges, restrictions or conditions, whether in regard to dividends, voting, return of capital of otherwise as may be stipulated in the resolution or other instrument authorizing such new shares.

8. Consolidation and Subdivision; Fractional Shares

With regard to its capital the Company may:

8.1. From time to time, by resolution of the Shareholders, subject to the Articles and the Law:

8.1.1. Consolidate all or any of its issued or unissued share capital into shares bearing a per share nominal value that is larger than the per share nominal value of its existing shares;

8.1.2. Cancel any shares that at the date of the adoption of such resolution have not been acquired or agreed to be acquired by any person, and reduce the amount of its share capital by the amount of the shares so cancelled;

8.1.3. Subdivide its shares (issued or unissued) or any of them, into shares of smaller per share nominal value than is fixed by these Articles. The resolution pursuant to which any share is subdivided may determine that, as among the holders of the shares resulting from such subdivision, one or more of such shares may, as compared with the others, have special rights, or be subject to any such restrictions, as the Company has power to attach to unissued or new shares;

8.1.4. Reduce its share capital in any manner, including with and subject to any incidental authorities and/or consents required by law.

8.2. Upon any consolidation or subdivision of shares that may result in fractional shares, the Board may settle any difficulty that may arise with regard thereto as it deems fit, including, without limitation, by:

8.2.1. Allotting, in contemplation of, or subsequent to, such consolidation or other action, such shares or fractional shares sufficient to preclude or remove fractional shareholdings;

8.2.2. Notwithstanding Section 295 of the Law, making such arrangements for the sale or transfer of the fractional shares to such other shareholders of the Company at such times and at such price as the Board deems fit so as to most expeditiously preclude or remove any fractional shareholdings and cause the transferees of such fractional shares to pay the full fair market value thereof to the transferors, and the Board is hereby authorized to act as agent for the transferors and transferees with power of substitution and off-setting for purposes of implementing the provisions of this sub-Article 8.2.2.

8.2.3. To the extent as may be permitted under the Law, redeeming or purchasing such fractional shares sufficient to preclude and remove such fractional shareholding; and

8.2.4. Determining, as to the holders of shares so consolidated, which issued shares shall be consolidated into each share of a larger nominal value.

INCREASE OF CAPITAL

9. Increase of Capital

9.1. The Company, by resolution of the Shareholders, may from time to time, whether or not all the shares then authorized have been issued, and whether or not all the shares theretofore issued have been fully called up for payment, increase its authorized share capital. Any such new share capital shall be of such amount and divided into shares of such nominal values and (subject to any special rights then attached to any existing class of shares) bear such rights or preferences or be subject to such conditions or restrictions (if any) as the resolution approving such share capital increase shall provide.

9.2. Except so far as otherwise provided in such resolution or pursuant to the Articles, such new shares shall be subject to all the provisions of the Articles applicable to the shares of such class included in the existing share capital.

10. Modification of Class Rights

10.1. If at any time the share capital of the Company is divided into different classes of shares, the right attached to any class (unless otherwise provided by the terms of issue of the shares of that class) may be modified only upon consent of a separate general meeting of the holders of the shares of that class. The provisions of these Articles relating to general meetings of Shareholders shall apply *mutatis mutandis* to every such separate general class meeting.

10.2. Unless otherwise provided by these Articles, the increase in an authorized class of shares, or the issuance of additional shares thereof out of the authorized and unissued share capital, shall not be deemed, for the purposes of Article 10.1 to vary, modify or abrogate the rights attached to previously issued shares of such class or of any other class of shares.

11. Redeemable Shares

The Company shall have the power to issue redeemable shares and redeem the same all in accordance with, and subject to, the provisions of the Law.

SHARES

12. Issuance of Share Certificates; Replacement of Lost Certificates

12.1. Share certificates, when issued, shall be issued, upon the written request of a Shareholder, under the Seal and shall bear the signature of any person or persons so authorized by the Board.

12.2. Each Shareholder shall be entitled to one or more numbered certificate(s) for all the shares of any class registered in his name, each of which shall state the number of shares represented by the certificate, their serial numbers and the amount paid on account of their nominal value.

12.3. A share certificate registered in the Shareholders Register in the names of two or more persons shall be delivered to the person first named in the Shareholders Register in respect of such co-ownership and the Company shall not be obligated to issue more than one certificate to all of the joint holders.

12.4. A share certificate that has been defaced, lost or destroyed, may be replaced, and the Company shall issue a new certificate to replace such defaced, lost or destroyed certificate upon payment of such fee, and upon the furnishing of such evidence of ownership and such indemnity, as the Board, in its discretion, deems fit.

13. Registered Holder

Except as otherwise provided in these Articles, the Company shall be entitled to treat each Shareholder identified on the Shareholders Register as the absolute owner of the shares registered in his name, and accordingly, shall not, except as ordered by a court of competent jurisdiction, or as required by statute, be obligated to recognize any equitable or other claim to, or interest in, such share on the part of any other person.

14. Payment in Installment

If, pursuant to the terms of allotment or issue of any share and unless determined otherwise in such terms, all or any portion of the price thereof shall be payable in installments, every such installment shall be paid to the Company on the due date thereof by the then registered holder(s) of the share or the person(s) then entitled thereto.

15. Calls on Shares

15.1. The Board may, from time to time, as in its discretion it deems fit, make calls for payment upon Shareholders in respect of any sum which has not been paid up in respect of shares held by such Shareholders and that is not, pursuant to the terms of allotment or issue of such shares or otherwise, payable at a fixed time. Each Shareholder shall pay the amount of every call so made upon him (and of each installment thereof if the same is payable in installments), to the person(s) and at the time(s) and place(s) designated by the Board. Unless otherwise stipulated in the resolution of the Board (and in the notice referred to below), each payment in response to a call shall be deemed to constitute a pro rata payment on account of all the shares in respect of which such call was made.

15.2. Notice of any call for payment by a Shareholder shall be given in writing to such Shareholder not less than 14 days prior to the time of payment fixed in such notice, and shall specify the time and place of payment, and the person to whom such payment is to be made. Prior to the time for any such payment fixed in a notice of a call given to a Shareholder, the Board may in its discretion, by notice in writing to such Shareholder, revoke such call in whole or in part, extend the time fixed for payment thereof, or designate a different place of payment or person to whom payment is to be made. In the event of a call payable in installments, only one notice thereof need be given.

15.3. If, pursuant to the terms of allotment or issue of a share or otherwise, an amount is made payable at a fixed time (whether on account of such share or by way of premium), such amount shall be payable at such time as if it were payable by virtue of a call made by the Board and for which notice was given in accordance with this Article 15, and the provisions of these Articles with regard to calls (and the non-payment thereof) shall be applicable to such amount (and the non-payment thereof).

15.4. Joint holders of a share shall be jointly and severally liable to pay all calls for payment in respect of such share and all interest payable thereon.

15.5. Any amount called for payment that is not paid when due shall bear interest from the date fixed for payment until actual payment thereof, at such rate and payable at such time(s) as the Board may prescribe.

15.6. The Board may provide for differences among the allottees of such shares as to the amounts and times for payment of calls for payment in respect of such shares.

16. Prepayment

With the approval of the Board, any Shareholder may pay to the Company any amount not yet payable in respect of his shares, and the Board may approve the payment by the Company of interest on any such amount until the same would be payable if it had not been paid in advance, at such rate and time(s) as may be approved by the Board. The Board may at any time cause the Company to repay all or any part of the money so advanced, without premium or penalty. Nothing in this Article 16 shall derogate from the right of the Board to make any call for payment before or after receipt by the Company of any such advance.

17. Forfeiture and Surrender

17.1. If any Shareholder fails to pay an amount payable by virtue of a call, or interest thereon as provided for in accordance herewith, on or before the day fixed for payment of the same, the Board may, at any time after the day fixed for such payment, so long as such amount (or any portion thereof) or interest thereon (or any portion thereof) remains unpaid, forfeit all or any of the shares in respect of which such payment was called for. All expenses incurred by the Company in attempting to collect any such amount or interest thereon, including, without limitation, attorneys' fees and costs of legal proceedings, shall be added to, and shall, for all purposes (including the accrual of interest thereon), constitute a part of, the amount payable to the Company in respect of such call.

17.2. Upon the adoption of a resolution as to the forfeiture of a Shareholder's share, the Board shall cause notice thereof to be given to such Shareholder, which notice shall state the place that payment is to be made and that, in the event of the failure to pay the entire amount so payable by a date specified in the notice (which date shall be not less than seven days after the date such notice is given and which may be extended by the Board), such shares shall be *ipso facto* forfeited; *provided, however*, that, prior to such date, the Board may nullify such resolution of forfeiture, but no such nullification shall prevent the Board from adopting a further resolution of forfeiture in respect of the non-payment of the same amount.

17.3. Without derogating from Articles 17.1 and 17.2 hereof, whenever shares are forfeited as herein provided, any and all dividends declared in respect of such shares and not actually paid shall be deemed to have been forfeited at the same time as the forfeiture of such shares.

17.4. The Company, by resolution of the Board, may accept the voluntary surrender of any share. A surrendered share shall be treated as if it had been forfeited.

17.5. Any share forfeited or surrendered as provided herein shall become the property of the Company, and the same, subject to the provisions of these Articles, may be sold, re-allotted or otherwise disposed of, as the Board deems fit.

17.6. Any Shareholder whose shares have been forfeited or surrendered shall cease to be a Shareholder in respect of the forfeited or surrendered shares, but shall, notwithstanding, be liable to pay, and shall forthwith pay, to the Company, all calls, interest and expenses owing upon or in respect of such shares at the time of forfeiture or surrender, together with interest thereon from the time of forfeiture or surrender until actual payment, at the rate prescribed in Article 15.5 above, and the Board, in its discretion, may, but shall not be obligated to, enforce the payment of such monies, or any part thereof. In the event of such forfeiture or surrender, the Company, by resolution of the Board, may accelerate the date(s) of payment of any or all amounts then owing to the Company by the Shareholder in question (but not yet due) in respect of all shares owned by such Shareholder, solely or jointly with another.

17.7. The Board may at any time, before any share so forfeited or surrendered shall have been sold, re-allotted or otherwise disposed of, nullify the forfeiture or surrender on such conditions as it deems fit, but no such nullification shall prevent the Board from re-exercising its powers of forfeiture pursuant to this Article 17.

17.8. A declaration in writing by a director or secretary of the Company that a share in the Company has been duly forfeited on the date stated in the declaration shall be conclusive evidence of the facts therein stated against all persons claiming to be entitled to the share.

17.9. The provisions of these Articles as to forfeiture shall apply in the case of non-payment of any sum which, by the terms of issue of a share, becomes payable at a fixed time, whether on account of the amount of the share, or by way of premium, as if the same had been payable by virtue of a call duly made and notified.

18. Lien

18.1. Except to the extent the same may be waived or subordinated in writing, the Company shall have a first and paramount lien upon all the shares registered in the name of each Shareholder (without regard to any equitable or other claim or interest in such shares on the part of any other person), and upon the proceeds of the sale thereof, for his debts or other liabilities to the Company arising from any amount payable by such Shareholder in respect of any unpaid or partly paid share, whether or not such debt or other liability has matured. Such lien shall extend to all dividends from time to time declared or paid in respect of such share. Unless otherwise provided, the registration by the Company of a transfer of shares shall be deemed to be a waiver on the part of the Company of the lien (if any) existing on such shares immediately prior to such transfer.

18.2. The Board may cause the Company to sell a share subject to such a lien when the debt or other liability giving rise to such lien has matured, in such manner and for such sums as the Board deems fit, but no such sale shall be made unless such debt or other liability has not been satisfied within seven days after written notice of the intention to sell shall have been served on such Shareholder, his executors or administrators.

18.3. The net proceeds of any such sale, after payment of the costs thereof, shall be applied in or toward satisfaction of the debts or other liabilities of such Shareholder in respect of such share (whether or not the same have matured), and the remainder (if any) shall be paid to the Shareholder, his executors, administrators or assigns.

19. Sale After Forfeiture or Surrender or in Enforcement of Lien

Upon any sale of a share after forfeiture or surrender or for enforcing a lien, the Board may appoint any person to execute an instrument of transfer of the share so sold and cause the purchaser's name to be entered in the Shareholders Register in respect of such share and the seller's name to be stricken off of the Shareholders Register with respect to such share. The purchaser shall be registered as the Shareholder and shall not be obligated to supervise the application of the proceeds of such sale and after his name has been entered in the Shareholders Register in respect of such share, the validity of the sale shall not be affected by any defect or illegality in the sale proceedings. The sole remedy of any person aggrieved by any such sale shall be in damages only and against the Company exclusively.

20. Purchase of the Company's Shares

The Company may, subject to and in accordance with the provisions of the Law, purchase or undertake to purchase, provide finance and or assistance or undertake to provide finance and/or assistance directly or indirectly, with respect to the purchase of its shares or securities that may be converted into shares of the Company or that confer rights upon the holders thereof to purchase shares of the Company.

TRANSFER OF SHARES

21. Registration of Transfer

21.1. No transfer of shares shall be registered unless a proper writing or instrument of transfer (in any customary form or any other form satisfactory to the Board) has been submitted to the Company (or its transfer agent), together with the share certificate(s) or such other evidence of title as the Board may reasonably require.

21.2. The Board may, in its discretion to the extent it deems necessary and subject to any restrictions in the Law or the rules of any stock exchange upon which the Ordinary Shares are listed or included for quotation, close the Shareholders Register for registrations of transfers of shares during any year for periods to be determined by the Board, and no registrations in the Shareholders Register of transfers of shares shall be made by the Company during any such period during which the Shareholders Register is so closed.

22. Decedents' Shares

22.1. In case of a share registered in the name of two or more shareholders, the Company may recognize the survivor(s) as the sole owner(s) thereof unless and until the provisions of Article 22.2 have been effectively invoked.

22.2. Any person becoming entitled to a share in consequence of the death of any person, upon producing evidence of the grant of probate or letters of administration or declaration of succession (or such other evidence as the Board may reasonably deem sufficient), shall be registered as a Shareholder in respect of such share, or may, subject to the regulations as to transfer herein contained, transfer such share. However, nothing herein shall release the estate of a deceased Shareholder (whether sole or joint) of a share from any obligation to the Company with respect to any share held by the deceased.

23. Receivers and Liquidators

23.1. The Company may recognize any receiver, liquidator or similar official appointed to wind-up, dissolve or otherwise liquidate a Shareholder that is an entity, and a trustee, manager, receiver, liquidator or similar official appointed in bankruptcy or in connection with the reorganization of, or similar proceeding with respect to, a Shareholder or its properties, as being entitled to the shares registered in the name of such Shareholder.

23.2. Any such receiver, liquidator or similar official appointed to wind-up, dissolve or otherwise liquidate a Shareholder that is an entity and any such trustee, manager, receiver, liquidator or similar official appointed in bankruptcy or in connection with the reorganization of, or similar proceedings with respect to, a Shareholder or its properties, upon producing such evidence as the Board may deem sufficient as to his authority to act in such capacity or under this Article, shall with the consent of the Board (which the Board may grant or refuse in its discretion), be registered as a Shareholder in respect of such shares, or may, subject to the provisions as to transfer herein contained, transfer such shares.

BRANCH REGISTERS

24. Branch Registers

Subject to and in accordance with the provisions of the Law and to all orders and regulations issued thereunder, the Company may cause branch registers to be kept in any place outside Israel as the Board may think fit, and, subject to all applicable requirements of Law, the Board may from time to time adopt such rules and procedures as it may think fit in connection with the keeping of such branch registers.

RECORD DATE FOR NOTICES OF GENERAL MEETINGS

AND OTHER ACTION

25. Record Date for Notices of General Meetings

25.1. Notwithstanding any provision of these Articles to the contrary and subject to applicable law, the Board may fix a date, not exceeding 40 days, and not less than four days, prior to the date of any general meeting of the Shareholders, as the date of which Shareholders entitled to participate and to vote at such meeting shall be determined, and all persons who were holders of record of voting shares on such date and no others shall be entitled to notice of, participate in and to vote at such meeting. A determination of Shareholders of record entitled to participate and to vote at any meeting shall apply to any adjournment of such meeting; *provided, however*, that the Board may fix a new record date for the adjourned meeting.

25.2. Any Shareholder or Shareholders of the Company holding at least one percent of the voting rights in the issued share capital of the Company may, subject to the Law, request that the Board include a subject in the agenda of a general meeting to be held in the future. Any such request (i) must be in writing, (ii) must include all information related to the subject matter and the reason that such subject is proposed to be brought before the general meeting and (iii) must be signed by the Shareholder or Shareholders making such request. In addition, subject to the Law, the Board may include such subject in the agenda of a general meeting only if the request has been delivered to the secretary of the Company at least 75 days and not more than 120 days prior to the date set for the relevant Annual General Meeting or Extraordinary General Meeting, as applicable. Each such request shall also set forth: (a) the name and address of the Shareholder making the request; (b) a representation that the Shareholder is a holder of shares of the Company entitled to vote at such meeting and intends to appear in person or by proxy at the meeting; (c) a description of all arrangements or understandings between the Shareholder and any other person or persons (naming such person or persons) in connection with the subject which is requested to be included in the agenda; and (d) a declaration that all the information that is required under the Law and any other applicable law to be provided to the Company in connection with such subject, if any, has been provided. In addition, if such subject includes a nomination to the Board in accordance with the Articles, the request shall also set forth the consent of each nominee to serve as a director of the Company if so elected and a declaration signed by each of the nominees declaring that there is no limitation under applicable law for the appointment of such a nominee. Furthermore, the Board may, in its discretion, to the extent it deems necessary, require that the Shareholders making the request provide additional information so as to include a subject in the agenda of a general meeting.

GENERAL MEETINGS

26. Annual Meetings

A general meeting shall be held at least once in every year at such time, being not more than 15 months after the last preceding Annual General Meeting (as such term is defined hereunder), and at such place, within or out of the State of Israel, as may be prescribed by the Board. Such general meetings shall be called "Annual General Meetings."

27. Extraordinary General Meetings

All general meetings of Shareholders other than Annual General Meetings shall be called "Extraordinary General Meetings." The Board may, whenever it thinks fit, convene an Extraordinary General Meeting, at such time and place, within or out of the State of Israel, as may be determined by the Board, and shall be obligated to do so upon a request in writing in accordance with Section 63 of the Law.

28. Powers of the General Meeting

Subject to the provisions of the Articles and the Law, the function of the General Meeting shall be to elect the members of the Board, including External Directors; to appoint and/or ratify the Company's auditor; to approve acts and transactions that require approval by a general meeting under the provisions of the Law or these Articles; to increase and reduce the authorized share capital, in accordance with the provisions of the Law; to approve any amendment to these Articles (subject to the special majority requirements contained in Article 34 below); and to approve a resolution to consummate a merger (as defined in Section 1 of the Law).

29. Notice of General Meetings; Omission to Give Notice

Subject to these Articles, applicable law and regulations, including the applicable laws and regulations of any stock market on which the Company's shares are listed or included for quotation, prior notice of at least 21 days of any general meeting, specifying the place, date and hour of the meeting, the agenda, proposed resolutions and voting arrangements shall be given as, hereinafter provided, to the Shareholders thereunto entitled pursuant to these Articles and the Law. Non-receipt of any such notice shall not invalidate any resolution passed or the proceedings held at that meeting.

30. Manner of Meeting

The Board may, in its absolute discretion, resolve to enable persons entitled to attend a general meeting to do so by simultaneous attendance and participation at the principal meeting place and a satellite or Internet meeting place or places anywhere in the world and the Shareholders present in person, by proxy or by written ballot at satellite or Internet meeting places shall be counted in the quorum for and entitled to vote at the general meeting in question, and that meeting shall be duly constituted and its proceedings valid, provided that the chairperson of the general meeting is satisfied that adequate facilities are available throughout the general meeting to ensure that Shareholders attending at all the meeting places are able to: (a) hear all persons who speak (whether by the use of microphones, loudspeakers audio-visual communications equipment or otherwise) in the principal meeting place and any satellite meeting place, and (b) be heard by all other persons so present in the same way.

PROCEEDINGS AT GENERAL MEETINGS

31. Quorum

31.1. No business shall be transacted at any general meeting unless a quorum is present when the meeting commences. For all purposes, the quorum shall be at least two Shareholders present in person, or by proxy, holding in the aggregate at least 33 1/3% (thirty three percent and one-third of a percent) of the voting rights in the issued share capital of the Company.

31.2. If within 30 minutes from the time appointed for the meeting a quorum is not present, the meeting, if convened upon the request of the Shareholders, shall be dissolved; if the meeting is not convened upon the request of a Shareholder it shall stand adjourned to the same day in the next week at the same place and time, or to such day and at such time and place as the chairperson may determine with the consent of the holders of a majority of the voting power represented at the meeting in person or by proxy and voting on the question of adjournment. No business shall be transacted at any adjourned meeting except business that might lawfully have been transacted at the meeting as originally called. 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, than 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.

32. Chairperson

The chairperson, if any, of the Board shall preside as chairperson at every General Meeting of the Company. If there is no such chairperson, or if at any meeting he is not present within 15 minutes after the time fixed for holding the meeting or is unwilling to act as chairperson, the Shareholders present shall choose one of the Shareholders present to be chairperson. The chairperson of any general meeting shall not, by virtue of such office, be entitled to vote at any general meeting nor shall the chairperson of a meeting have a second or casting vote (without derogation, however from the rights of such chairperson to vote as a Shareholder or proxy of a Shareholder if, in fact, he is also a Shareholder or a duly appointed proxy).

33. Adoption of Resolutions at General Meetings

33.1. Subject to Article 34 below, resolutions of the Shareholders with respect to all matters shall be deemed adopted if approved by the holders of a simple majority of the voting power of the Company represented at the meeting in person or by proxy and voting thereon, other than as specified in the Articles or otherwise required by the Law.

33.2. Every question submitted to a general meeting shall be decided by a show of hands, but if a written ballot is demanded by any Shareholder present in person or by proxy and entitled to vote at the meeting, the same shall be decided by such ballot. A written ballot may be demanded before the voting on a proposed resolution or immediately after the declaration by the chairperson of the meeting of the results of the vote by a show of hands. If a vote by written ballot is taken after such declaration, the results of the vote by a show of hands shall be of no effect, and the proposed resolution shall be decided by such written ballot. The demand for a written ballot may be withdrawn at any time before the same is conducted, in which event another Shareholder may then demand such written ballot. The demand for a written ballot shall not prevent the continuance of the meeting for the transaction of business other than the question on which the written ballot was demanded.

33.3. A declaration by the chairperson of the meeting that a resolution was carried unanimously, or carried by a particular majority, or did not receive the required majority in order to be carried, and an entry to that effect in the minute book of the Company, shall be prima facie evidence of the fact without proof of the number or proportion of the votes recorded in favor of or against such resolution.

34. Special Resolution

Notwithstanding anything in these Articles to the contrary, the provisions of Articles 34, 40, 43.1, 43.3, 49, 52, 79, and 80 may not be amended without a resolution of the general meeting of the Company approved by Shareholders holding more than two-thirds of the voting power of the issued and outstanding share capital of the Company.

VOTES OF SHAREHOLDERS

35. Voting Power

Subject to the provisions of Article 36 and subject to any provision in the Articles conferring special rights as to voting, or restricting the right to vote, every Shareholder shall have one vote for each share held by him of record, on every resolution, without regard to whether the vote thereon is conducted by a show of hands, by written ballot or by any other means.

36. Voting Rights

36.1. In the case of joint holders, the vote of the senior holder to tender a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders. For the purpose of this Article, seniority shall be determined by the order in which the names appear in the Shareholders Register (or in the Company's transfer agent records). The appointment of a proxy to vote on behalf of a jointly held share shall be executed by the senior holder.

36.2. No Shareholder shall be entitled to vote at any general meeting (or be counted as a part of the quorum thereat), unless all calls and other sums then payable by him in respect of his shares in the Company have been paid.

36.3. Any Shareholder entitled to vote may vote either personally or by proxy (who need not be a shareholder of the Company), or, if the Shareholder is a company or other entity, by a representative authorized pursuant to Article 36.4.

36.4. A company or other corporate body that is a Shareholder of the Company may, by resolution of its directors or any other managing body thereof, authorize any person to be or to appoint its representative at any meeting of the Company. Any person so authorized shall be entitled to exercise on behalf of such Shareholder all the power that the latter could have exercised if it were an individual shareholder. Upon the request of the chairperson of the meeting, written evidence of such authorization (in form reasonably acceptable to the chairperson) shall be delivered to him.

PROXIES

37. Instrument of Appointment

37.1. The instrument appointing a proxy shall be in writing in such form as may be approved by the Board from time to time in compliance with applicable law.

37.2. The instrument appointing a proxy (and the power of attorney or other authority, if any, under which such instrument has been signed) shall either be delivered to the Company (at its Registered Office, at its principal place of business, at such place as the Board may specify, or by any other means, including electronic form, all in compliance with applicable law) not less than the close of business on the business day preceding the time fixed for the meeting at which the person named in the instrument proposes to vote, or presented to the chairperson at such meeting.

37.3. The Board may cause the Company to send, by mail or otherwise, instruments of proxy to Shareholders for use at any general meeting.

38. Effect of Death of Appointer or Revocation of Appointment

A vote cast pursuant to an instrument appointing a proxy shall be valid notwithstanding the death of the appointing Shareholder (or of his attorney-in-fact, if any, who signed such instrument), or the revocation of the appointment or the transfer of the share in respect of which the vote is cast, provided no written notification of such death, revocation or transfer shall have been received by the Company or by the chairperson of the meeting before such vote is cast and provided, further, that an appointing Shareholder, if present in person at such meeting, may revoke the appointment by means of a writing, oral notification to the chairperson, or otherwise.

39. Multiple Proxies

A Shareholder is entitled to vote by a separate proxy with respect to each share held by him provided that each proxy shall have a separate letter of appointment containing the serial number of the share(s) with respect to which the proxy is entitled to vote. Where valid but differing instruments of proxy are delivered in respect of the same share for use at the same meeting, the instrument that is delivered last (regardless of its date or of the date of its execution) shall be treated as replacing and revoking the others as regards that share. However, if the Board, or some other person as may be authorized by the Board for such purpose, is unable to determine which was the last instrument delivered, none of them shall be treated as valid in respect of that share. Delivery of an instrument appointing a proxy or any other instrument, as aforesaid, shall not preclude a Shareholder from attending and voting in person at the meeting.

DIRECTORS

40. Number of Directors

The Board shall be composed of seven (7) members including two External Directors.

41. Qualification of Directors

No person shall be disqualified from serving as a director by reason of not holding shares in the Company.

42. Continuing Directors in the Event of Vacancies

In the event of one or more vacancies in the Board, the continuing directors may continue to act in every matter; *provided, however*, that if they number less than a majority of the number of directors set by the Board to hold office pursuant to Article 40 hereof, they may only act in an emergency, and may call a general meeting of the Company for the purpose of electing directors to fill any or all vacancies, or appoint any other person as a director pursuant to Article 53, so that at least a majority of the number of directors set by the Board to hold office pursuant to Article 40 hereof are in office as a result of such meeting.

43. Vacation of Office; Removal of Directors

43.1. The office of a director shall be vacated, *ipso facto*, upon his death or if he be found legally incompetent; if he becomes bankrupt, if he is prevented by applicable law or listing requirements from serving as a director of the Company, if the Board terminates his office according to Section 231 of the Law, if a court order is given in accordance with Section 233 of the Law, or if under the Law his term otherwise automatically terminates.

43.2. The office of a director shall be vacated by his written resignation. Such resignation shall become effective on the date fixed therein, or upon the delivery thereof to the Company, whichever is later.

43.3. A director shall be removed from office only pursuant to the provisions of Article 43.1 or by a resolution of the general meeting of the Company approved by Shareholders holding more than two-thirds of the voting power of the issued and outstanding share capital of the Company.

44. Remuneration of Directors

Subject to the provisions of the Law, a director may be paid remuneration by the Company for his services as director to the extent such remuneration shall have been approved in accordance with the Law.

45. Conflict of Interests; Approval of Related Party Transactions

45.1. Subject to the provisions of the Law and the Articles, the Company may enter into any contract or otherwise transact any business with any director in which contract or business such director has a personal interest, directly or indirectly; and may enter into any contract of otherwise transact any business with any third party in which contract or business a director has a personal interest, directly or indirectly.

45.2. A director or other Office Holder, shall not participate in deliberations concerning, nor vote upon a resolution approving, a transaction with the Company in which he has a personal interest, except as otherwise provided for in the Law.

POWERS AND DUTIES OF DIRECTORS

46. Powers of the Board of Directors

46.1. General

In addition to all powers and authorities of the Board as specified in the Law, the determination of the Company's policies, and the supervision of the Chief Executive Officer of the Company (as defined herein) and the Company's officers shall be vested in the Board. In addition, the Board may exercise all such powers and do all such acts and things as the Company is authorized to exercise and do, and are not hereby or by law required to be exercised or done by the Company in a general meeting or by the Chief Executive Officer under his express or residual authority. The authority conferred on the Board by this Article shall be subject to the provisions of the Law, the Articles and any regulation or resolution consistent with the Articles adopted from time to time by the Company in a general meeting; *provided, however*, that no such regulation or resolution shall invalidate any prior act done by or pursuant to a decision of the Board that would have been valid if such regulation or resolution had not been adopted.

46.2. Borrowing Power

The Board may from time to time, in its discretion, cause the Company to borrow or secure the payment of any sum or sums of money for the purposes of the Company, and may secure or provide for the repayment of such sum or sums in such manner, at such times and upon such terms and conditions in all respects as it thinks fit, and, in particular, by the issuance of bonds, perpetual or redeemable debentures, debenture stock, or any mortgages, charges, or other securities on the undertaking or the whole or any part of the property of the Company, both present and future, including its uncalled or called but unpaid capital for the time being.

46.3. Reserves

The Board may, from time to time, set aside any amount(s) out of the profits of the Company as a reserve or reserves for any purpose(s) that the Board, in its discretion, shall think fit, and may invest any sum so set aside in any manner and from time to time deal with and vary such investments, and dispose of all or any part thereof, and employ any such reserve or any part thereof in the business of the Company without being bound to keep the same separate from other assets of the Company, and may subdivide or redesignate any reserve or cancel the same or apply the funds therein for another purpose, all as the Board may from time to time think fit.

47. Exercise of Powers of Directors

47.1. A meeting of the Board at which a quorum is present shall be competent to exercise all the authorities, powers and discretions vested in or exercisable by the Board.

47.2. Except as otherwise specifically set forth in these Articles or as required by the Law, a resolution proposed at any meeting of the Board shall be deemed adopted if approved by a majority of the directors present when such resolution is put to a vote and voting thereon.

47.3. A resolution in writing signed by all directors then in office and lawfully entitled to vote thereon, or to which all such directors have given their written consent (by letter, telegram, email, facsimile, telecopier, email, or otherwise), shall be deemed to have been unanimously adopted by a meeting of the Board duly convened and held.

48. Delegation of Powers

48.1. The Board may, subject to the provisions of the Law and any other applicable law, delegate any or all of its powers to committees, and it may from time to time revoke such delegation or alter the composition of any such committee. Any Committee so formed (in these Articles referred to as a "Committee of the Board"), shall, in the exercise of the powers so delegated, conform to any regulations imposed on it by the Board. The meetings and proceedings of any Committee of the Board shall be governed, with the relevant changes, by the provisions herein contained for regulating the meetings of the Board, so far as not superseded by any regulations adopted by the Board under this Article. Unless otherwise expressly provided by the Board in delegating powers to a Committee of the Board, such Committee shall not be empowered to further delegate such powers. In accordance with and subject to Section 271 of the Law, the Compensation Committee of the Board (if any) shall have the full power and authority to approve the terms of compensation of the Office Holders of the Company, other than Office Holders who are also directors.

48.2. Without derogating from the provisions of Article 48.1, the Board may, subject to the provisions of the Law, from time to time appoint a secretary to the Company, as well as officers, agents, employees and independent contractors, as the Board may deem fit, and may terminate the service of any such person. The Board may, subject to the provisions of the Law, determine the powers and duties, as well as the salaries and emoluments, of all such persons, and may require security in such cases and in such amounts as it thinks fit.

48.3. The Board may from time to time, by power of attorney or otherwise, appoint any person, company, firm or body of persons to be the attorney or attorneys of the Company at law or in fact for such purpose(s) and with such powers, authorities and discretions, and for such period and subject to such conditions, as it thinks fit, and any such power of attorney or other appointment may contain such provisions for the protection and convenience of persons dealing with any such attorney as the Board may think fit, and may also authorize any such attorney to delegate all or any of the powers, authorities and discretions vested in him.

ELECTION OF DIRECTORS

49. Other than External Directors, the directors will be elected in three staggered classes by the vote of a majority of the ordinary shares present and entitled to vote. The directors of only one 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. The directors serving as of the date these Articles become effective will be classified as shall be determined by a resolution of the Board. At the Company's Annual General Meeting to be held in 2006, the term of the first class, consisting of two directors will expire, and the directors elected at that meeting will be elected for a three-year term. At the Company's Annual General Meeting to be held in 2007, the term of the second class, consisting of two directors, will expire and the directors elected at that meeting will be elected for a three-year term. At the Company's Annual General Meeting to be held in 2008, the term of the third class, consisting of one director, will expire and the director elected at that meeting will be elected for a three-year term. The External Directors will not be assigned a class.

If the number of directors constituting the Board 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 the Board shorten the term of any incumbent director.

50. Subject to Article 49, directors shall be elected at the Annual General Meeting or an Extraordinary General Meeting of the Company by the vote of the holders of a majority of the voting power represented at such meeting in person or by proxy and voting on the election of directors.

51. Notwithstanding the provisions of Article 49, External Directors shall be elected and hold office in accordance with the provisions of the Law.

52. Nominations to the Board

52.1. Nominations for the election of directors may be made by the Board or a Committee of the Board or, subject to the Law, by any Shareholder. Any Shareholder or Shareholders holding at least five percent of the voting rights in the issued share capital of the Company may nominate one or more persons for election as directors at a general meeting only if a written notice of such Shareholder's intent to make such nomination or nominations has been given to the secretary of the Company and each such notice sets forth all the details and information set forth in Article 25.2. The chairperson of the meeting may refuse to acknowledge the nomination of any person not made in compliance with the foregoing procedure.

52.2. Notwithstanding the provisions of Articles 52.1 and 51, no person shall be nominated or appointed to the office of a director if such person is disqualified under the Law from being appointed as a director.

52.3. A director's term (including External Directors) shall begin either on the date of his appointment to the Board or at such later date designated in the resolution appointing such director.

53. Subject to the provisions of Article 49, the Board may at any time 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 General Meeting at which the term for the other directors of his class expires, unless otherwise stated in the appointing resolution.

54. Subject to the provisions of the Law, a director may appoint an alternate director to attend a meeting in his or her place, but an alternate director so appointed must be approved by the board prior to the relevant meeting.

PROCEEDINGS OF DIRECTORS

55. Meetings of the Board

55.1. The Board may meet and adjourn its meetings at such places either within or out the State of Israel and otherwise regulate such meetings and proceedings as the directors think fit, provided that meetings shall be convened at least once every three months. Subject to all of the other provisions of the Articles concerning meetings of the Board, the Board may meet by telephone conference call or other communication equipment so long as each director participating in such call can hear, and be heard by, each other director participating in such call. The directors participating in this manner shall be deemed to be present in person at such meeting and shall be entitled to vote or be counted in a quorum accordingly.

55.2. Board meetings may be convened at any time by the chairperson of the Board. The chairperson of the Board shall convene a Board meeting upon the written request of any two directors (or one director if the Board is comprised of fewer than seven directors) as soon as practicable after receiving such request and shall otherwise convene a Board meeting as provided by the Law.

56. Notice

56.1. Notice of a Board meeting shall contain the information required by the Law and shall be delivered to the directors not less than three days before such meeting.

56.2. Notice of a meeting of the Board shall be given in writing, and may be sent by hand, post, facsimile or electronic mail to a director at the address, facsimile number or electronic mail address given by such director to the Company for such purpose. Any such notice shall be deemed duly received, if sent by post, three days following the day when any such notice was duly posted and if delivered by hand or transmitted by facsimile transmission or electronic mail, such notice shall be deemed duly received by the director on the date of delivery or, as the case may be, transmission of the same.

56.3. Notwithstanding anything contained to the contrary herein, failure to deliver notice to a director of any such meeting in the manner required hereby may be waived (in advance or retroactively) by such director and a meeting shall be deemed to have been duly convened notwithstanding such defective notice if such failure or defect is waived (in advance or retroactively), by all directors entitled to participate at such meeting and to whom notice was not duly given. The presence of a director at any such meeting shall be deemed due receipt of prior notice or a waiver of any such notice requirement by such director.

57. Quorum

57.1. A quorum at a meeting of the Board shall be constituted by the presence in person, or by telephone or similar communication equipment of a majority of the directors then in office who are lawfully entitled to participate and vote at the meeting. If within 30 minutes (or within such longer time as the chairperson of the meeting may decide) from the time appointed for the holding of the Board meeting a quorum is not present, the Board meeting shall stand adjourned to the date, time, and place determined by the chairperson. No business shall be transacted at a meeting of the Board unless the requisite quorum is present.

57.2. If at any adjourned Board meeting a quorum is not present within 30 minutes (or within such longer time as the chairperson of the meeting may decide) from the time appointed for holding the meeting, then the quorum at such meeting shall be constituted by the presence in person, or by telephone or similar communication equipment of two of the directors then in office who are lawfully entitled to participate and vote at the meeting. If at such meeting such quorum is not present within the above mentioned time frame, the Board meeting shall be adjourned in accordance with the provisions of this Article 57. No business shall be transacted at a meeting of the Board unless the requisite quorum is present.

58. Chairperson

The Board may from time to time elect by resolution or otherwise appoint a director to be chairperson or deputy chairperson and determine the period for which each of them is to hold office. The chairperson, or in his absence the deputy chairperson, shall preside at meetings of the Board, but if no such chairperson or deputy chairperson shall be elected or appointed, or if at any meeting the chairperson or deputy chairperson shall not be present within 15 minutes after the time appointed for holding such meeting, or if the chairperson, or, if applicable, deputy chairperson, is unwilling or unable to chair such meeting, the directors present shall choose one of their number to be chairperson of such meeting. The chairperson shall not have a second or casting vote at any Board meeting. The Chief Executive Officer of the Company may not serve as the chairperson of the Board, other than pursuant to Section 121 of the Law.

59. Validity of Acts

Subject to the provisions of the Law, all *bona fide* actions of any meeting of the Board, or of a Committee of the Board, or of any person acting as a director or a member of such Committee shall, notwithstanding that it be afterwards discovered that there was some defect in the appointment of any such director or such committee or person acting as aforesaid, or that they or any of them were disqualified, be as valid as if every such person or committee had been duly appointed or had duly continued in office and was qualified.

CHIEF EXECUTIVE OFFICER

60. Subject to the Articles and the Law, the Board may from time to time appoint one or more persons, whether or not directors, as the General Manager, Chief Executive Officer, and/or President of the Company (the "Chief Executive Officer"). Subject to the Law, the powers, authorities and responsibilities any such Chief Executive Officer shall have shall be those that the Board may, at its discretion, lawfully confer on the same. The Board may, from time to time, as the Board may deem fit, modify or revoke, such title(s), duties and authorities the Board conferred as aforesaid. Subject to the Articles and the Law, any such appointment(s) and any such powers, authorities and responsibilities may be either for a fixed term or without any limitation of time, and may be made upon such conditions and subject to such limitations and restrictions as the Board may, from time to time, determine. In addition, the Board may from time to time (subject to the provisions of any applicable law or the rules of any stock exchange upon which securities of the Company are listed or included for quotation and of any contract between any such person(s) and the Company) determine the salary of any such person(s) and remove or dismiss any such person(s) from office and appoint another or others in his or their place.

61. The management and the operation of the Company's affairs and business in accordance with the policies determined by the Board shall be vested in the Chief Executive Officer, in addition to all powers and authorities of the Chief Executive Officer, as specified in the Law. Without derogating from the above, all powers of management and executive authority that are not vested by the Law or by the Articles in another organ of the Company shall be vested in the Chief Executive Officer.

MINUTES

62. The Company shall cause minutes to be recorded of all general meetings of the Company and also of all appointments of directors and Office Holders and of the proceedings of all meetings of the Board and any Committees thereof. Such minutes shall set forth the names of persons present and all business transacted at such meetings. Any such minutes of any meeting, if purporting to be signed by the chairperson of such meeting or of the next succeeding meeting, or by the chairperson of the Board or the secretary of the Company, shall be *prima facie* evidence of the facts therein stated. Minutes of a meeting shall be kept at the Office for the period, and in the manner, prescribed in the Law.

DIVIDENDS AND RESERVES

63. Declaration of Dividends

Subject to the provisions of the Law, the Board may from time to time declare such dividends and cause the Company to pay such dividends. The Board shall have the full authority to determine the time for payment of such dividends, and the record date for determining the Shareholders entitled thereto, provided such date is not prior to the date of the resolution to distribute the dividend and no Shareholder who shall be registered in the Shareholders Register with respect to any shares after the record date so determined shall be entitled to share in any such dividend with respect to such shares.

64. Funds Available for Payment of Dividends

Dividends shall be paid out of the profits of the Company, as defined in the Law, or in accordance with Section 303 of the Law.

65. Amount Payable by Way of Dividends

Subject to any special or restricted rights conferred upon the holders of shares as to dividends, any dividend paid by the Company shall be allocated among the Shareholders entitled thereto in proportion to the sums paid up or credited as paid up on account of the nominal value of their respective holdings of the shares in respect of which such dividend is being paid without taking into account the premium paid up for the shares. The amount paid up on account of a share that has not yet been called for payment or fallen due for payment and upon which the Company pays interest to the shareholder shall not be deemed, for the purposes of this Article, to be a sum paid on account of the share.

66. Interest

No dividend shall bear interest as against the Company.

67. Payment in Kind

67.1. A dividend may be paid, wholly or partly, by the distribution of specific assets, and, in particular, by distribution of paid-up shares, debentures of the Company or debentures of any other company, or in any one or more such ways.

67.2. The Board may resolve that: (a) any monies, investments, or other assets forming part of the undivided profits of the Company standing to the credit of the reserve fund, or to the credit of any reserve fund for the redemption of capital, or to the credit of a reserve fund for the revaluation of real estate or other assets of the Company or any other reserve fund or investment funds or assets in the hands of the Company and available for dividends, or representing premiums received on the issue of shares and standing to the credit of the share premium account, be capitalized and distributed among such of the Shareholders as would be entitled to receive the same if distributed by the way of dividend and in the same proportion on the basis that they become entitled thereto as capital; (b) all or any part of such capitalized fund be applied on behalf of such Shareholders in paying up in full, either at nominal or at such premiums as the resolution may provide, any unissued shares or debentures of the Company that shall be distributed accordingly or in or towards the payment, in full or in part, of the uncalled liability on any issued shares or debentures of the Company; and (c) such distribution or payment shall be accepted by such Shareholders in full satisfaction of their share and interest in the said capitalized sum.

68. Implementation of Powers under Article 67

For the purpose of giving full effect to any resolution under Article 67 and without derogating from the provisions of Article 8.2 hereof, the Board may settle any difficulty that may arise in regard to the distribution as it thinks expedient, and, in particular, may issue certificates for fractional amounts of shares or other securities, and may fix the value for distribution of any specific assets, and may determine that cash payments shall be made to any shareholder upon the footing of the value so fixed, or that fractions of less value than the nominal value of one share may be disregarded in order to adjust the rights of all parties, and may vest any such cash, shares, debentures, debenture stock or specific assets in trustees upon such trusts for the persons entitled to the dividend or capitalized fund as may seem expedient to the Board. Where required, a proper contract shall be filed in accordance with Section 291 of the Law, and the Board may appoint any person to sign such contract on behalf of the persons entitled to the dividend or capitalized fund.

69. Dividends on Unpaid Shares

69.1. Without derogating from Article 65 hereof, the Board may give an instruction that shall prevent the distribution of a dividend to the holders of shares for which the full amount payable has not been paid.

69.2. The Board may deduct from any dividend payable to any Shareholder all sums of money, if any, presently payable by such Shareholder to the Company on account of calls or otherwise in relation to the shares of the Company. The Board may retain any dividend or other moneys payable on or in respect of a share on which the Company has a lien, and may apply the same in or toward the satisfaction of the debts, liabilities or engagement in respect of which the lien exists.

70. Retention of Dividends

70.1. The Board may retain any dividend or other monies payable or property distributable in respect of a share on which the Company has a lien, and may apply the same in or toward satisfaction of the debts, liabilities, or engagements in respect of which the lien exists.

70.2. The Board may retain any dividend or other monies payable or property distributable in respect of a share in respect of which any person is, under Article 21 entitled to become a Shareholder, or which any person is, under such Article, entitled to transfer, until such person shall become a shareholder in respect of such share or shall transfer the same.

71. Unclaimed Dividends

All unclaimed dividends or other money payable in respect of a share may be invested or otherwise made use of by the Board for the benefit of the Company until claimed. The payment by the Board of any unclaimed dividend or such other moneys into a separate account shall not constitute the Company a trustee in respect thereof, and any dividend unclaimed after a period of seven years from the date of declaration of such dividend, and any such other moneys unclaimed after a like period from the date the same were payable, shall be forfeited and shall revert to the Company; *provided, however*, that the Board may, at its discretion, cause the Company to pay any such dividend or such other moneys, or any part thereof, to a person who would have been entitled thereto had the same not reverted to the Company.

72. Payment

Any dividend or other money payable in cash in respect of a share may be paid by check or warrant sent through the post to, or left at, the registered address of the person entitled thereto or by transfer to a bank account specified by such person (or, if two or more persons are registered as joint holders of such share or are entitled jointly thereto in consequence of the death or bankruptcy of the holder or otherwise, to any one of such persons or to his bank account), or to such person and at such address as the person entitled thereto may direct in writing. Every such check or warrant shall be made payable to the order of the person to whom it is sent, or to such person as the person entitled thereto as aforesaid may direct, and payment of the check or warrant by the banker upon whom it is drawn shall be a good discharge to the Company. Every such check or warrant shall be sent at the risk of the person entitled to the money represented thereby.

73. Receipt from a Joint Holder

If two or more persons are registered as joint holders of any share, or are entitled jointly thereto in consequence of the death or bankruptcy of the holder or otherwise, any one of them may give an effective receipt for any dividend or other monies payable or property distributable in respect of such share.

ACCOUNTS AND AUDIT

74. Books of Account

The Board shall cause accurate books of account to be kept in accordance with the provisions of the Law, and of any other applicable law or regulation including the rules of any stock exchange upon which the Ordinary Shares are listed or included for quotation. Such books of account shall be kept at the Office, or at such other place or places as the Board may think fit, and they shall always be open to inspection by all directors. Shareholders who do not serve as directors, shall only have such rights to inspect any account or book or other similar document of the Company as conferred by Law or authorized by the Board.

75. Audit

At least once in every fiscal year the accounts of the Company shall be audited and the correctness of the profit and loss account and balance sheet certified by one or more duly qualified auditors.

76. Auditors

The appointment, authorities, rights and duties of the auditor(s) of the Company, shall be regulated by applicable law; *provided, however*, that in exercising authority to fix the remuneration of the auditor(s), the Shareholders in a general meeting may act (and in the absence of any action in connection therewith shall be deemed to have so acted) to authorize the Board and/or a Committee of the Board to fix such remuneration subject to such criteria or standards, if any, as may be provided in such resolution, and if no such criteria or standards are so provided, such remuneration shall be fixed in an amount commensurate with the volume and nature of the services rendered by such auditor(s).

RIGHTS OF SIGNATURES

77. Rights of Signature

The Board shall be entitled to authorize any person or persons (who need not be directors) to act and sign on behalf of the Company, and the acts and signature of such person(s) on behalf of the Company shall bind the Company insofar as such person(s) acted and signed within the scope of his or their authority.

NOTICES

78. Notices

78.1. Any written notice or other document may be served by the Company upon any Shareholder either personally, electronically, or by sending it by prepaid mail (airmail if sent internationally) addressed to such Shareholder at his address as described in the Shareholders Register or such other address as he may have designated in writing for the receipt of notices and other documents. Any written notice or other document may be served by any Shareholder upon the Company by tendering the same in person to the secretary or the Chief Executive Officer of the Company at the Office or by sending it by prepaid registered mail (airmail if posted outside Israel) to the Company at its Office. Any such notice or other document shall be deemed to have been served 48 hours after it has been posted (seven business days if sent internationally), or when actually received by the addressee if sooner than 48 hours or seven business days, as the case may be, after it has been posted, or when actually tendered in person, to such shareholder (or to the secretary or the Chief Executive Officer). Notice sent by telegram, facsimile or electronic mail shall be deemed to have been served when actually received by the addressee, including in the event that it was defectively addressed or failed, in some other respect, to comply with the provisions of this Article 78.1.

78.2. All notices to be given to the Shareholders shall, with respect to any share to which persons are jointly entitled, be given to whichever of such persons is named first in the Shareholders Register or in the records of the Company's transfer agent, and any notice so given shall be sufficient notice to the holders of such share.

78.3. Any Shareholder whose address is not described in the Shareholders Register, and who shall not have designated in writing an address for the receipt of notices, shall not be entitled to receive any notice from the Company.

78.4. Notwithstanding anything to the contrary contained herein and subject to the provisions of the Law, notice to a Shareholder may be served, as general notice to all Shareholders, in accordance with applicable rules and regulations of any stock exchange upon which the Company's shares are listed or included for quotation.

78.5. Subject to applicable law, any Shareholder, director or any other person entitled to receive notice in accordance with these Articles or Law, may waive notice, in advance or retroactively, in a particular case or type of cases or generally, and if so, notice will be deemed as having been duly served, and all proceedings or actions for which the notice was required will be deemed valid.

78.6. The accidental omission to give notice of a meeting to any Shareholder or the non-receipt of notice by any Shareholder entitled to receive notice shall not invalidate the proceedings at any meeting or any resolution(s) adopted by such a meeting.

INSURANCE, EXEMPTION AND INDEMNITY OF OFFICERS

79. Subject to the provisions of the Law, the Company may:

79.1. enter into a contract for the insurance of the liability, in whole or in part, of any of its Office Holders with respect to an obligation imposed on such Office Holder due to an act performed by the Office Holder in the Office Holder's capacity as an Office Holder of the Company arising from any of the following:

79.1.1. a breach of duty of care to the Company or to any other person;

79.1.2. a breach of the duty of loyalty to the Company provided that the Office Holder acted in good faith and had reasonable grounds to assume that the act would not harm the interests of the Company;

79.1.3. a financial liability imposed on such Office Holder in favor of any other person;

79.2. undertake, in advance to indemnify, or may indemnify retroactively, an Office Holder of the Company with respect to any of the following liabilities or expenses that arise from an act performed by the Office Holder by virtue of being an Office Holder of the Company:

79.2.1. a financial liability imposed on an Office Holder in favor of another person by any judgment, including a judgment given as a result of a settlement or an arbitrator's award which has been confirmed by a court,

79.2.2. reasonable litigation expenses including attorney's fees, incurred by him as a result of an investigation or proceedings instituted against him by an authority empowered to conduct an investigation or proceedings, which are concluded 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 which are concluded 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; and

79.2.3. reasonable litigation expenses, including attorney's fees, expended by an Office Holder or which were imposed on an Office Holder by a court in proceedings filed against the Office Holder by the Company or in its name or by any other person or in a criminal charge on which the Office Holder was acquitted or in a criminal charge on which the Office Holder was convicted for an offense which did not require proof of criminal intent;

provided however, that in the event the Company wishes to indemnify an Office Holder in advance for financial liabilities under Article 79.2.1 it may only do so if the undertaking to indemnify the Office Holder for such liabilities was restricted to those events that the Board may deem foreseeable in light of the Company's actual activities, at the time of giving of such undertaking, and to a specific sum or a reasonable criterion under such circumstances as determined by the Board.

80. Subject to the provisions of the Law, the Company hereby releases, in advance, its Office Holders from liability to the Company for damage that arises from the breach of the Office Holder's duty of care to the Company.

81. The provisions of Articles 79 and 80 are not intended, and shall not be interpreted, to restrict the Company in any manner in respect of the procurement of insurance or in respect of indemnification (i) in connection with any person who is not an Office Holder, including, without limitation, any employee, agent, consultant or contractor of the Company who is not an Office Holder, or (ii) in connection with any Office Holder to the extent that such insurance and/or indemnification is not specifically prohibited under law; *provided* that the procurement of any such insurance or the provision of any such indemnification shall be approved by the Board . Any modification of Articles 79 through 81 shall be prospective in effect and shall not affect the Company's obligation or ability to indemnify an Office Holder for any act or omission occurring prior to such modification.

Perion Network Ltd.

THE 2003 ISRAELI SHARE OPTION PLAN

(*In compliance with Amendment No. 132 of the Israeli Tax Ordinance, 2002)

TABLE OF CONTENTS

This plan, as amended from time to time, shall be known as Perion Network Ltd. 2003 Israeli Share Option Plan (the "**ISOP**").

1. PURPOSE OF THE ISOP

The ISOP is intended to provide an incentive to retain, in the employ of the Company and its Affiliates (as defined below), persons of training, experience, and ability, to attract new employees, directors, consultants, service providers and any other entity which the Board shall decide their services are considered valuable to the Company, to encourage the sense of proprietorship of such persons, and to stimulate the active interest of such persons in the development and financial success of the Company by providing them with opportunities to purchase shares in the Company, pursuant to the ISOP.

The attached "U.S. Addendum to Perion Network Ltd. 2003 Israeli Share Option Plan" (the **"Addendum"**) is hereby incorporated as part of this ISOP, effective as of the date that the Board adopts the Addendum (the **"Addendum Date"**), and shall be coterminous with the ISOP. The purpose of the Addendum is to permit the Company to grant Options to employees and other service providers who are U.S. Persons (as defined in the Addendum). To the extent granted to U.S. Persons, such Options shall be designated for United States tax and legal purposes as non-qualified stock options or, if the ISOP and Addendum are approved by the Company's shareholders within 12 months of the Addendum Date, such Options may be designated as"Incentive Stock Options" in accordance with Section 422 of the U.S. Internal Revenue Code of 1986, as amended (the **"Code"**).

2. DEFINITIONS

For purposes of the ISOP and related documents, including the Option Agreement, the following definitions shall apply:

2.1 "**Affiliate**" means any "employing company" within the meaning of Section 102(a) of the Ordinance.

2.2 "**Approved 102 Option**" means an Option granted pursuant to Section 102(b) of the Ordinance and held in trust by a Trustee for the benefit of the Optionee.

2.3 **"Board"** means the Board of Directors of the Company.

2.4 "**Capital Gain Option (CGO)**" as defined in Section 5.4 below.

2.5 "**Cause"** means, (i) conviction of any felony involving moral turpitude or affecting the Company; (ii) any refusal to carry out a reasonable directive of the chief executive officer, the Board or the Optionee's direct supervisor, which involves the business of the Company or its Affiliates and was capable of being lawfully performed; (iii) embezzlement of funds of the Company or its Affiliates; (iv) any breach of the Optionee's fiduciary duties or duties of care of the Company; including without limitation disclosure of confidential information of the Company; and (v) any conduct (other than conduct in good faith) reasonably determined by the Board to be materially detrimental to the Company.

2.6 **"Chairman"** means the chairman of the Committee.

2.7 **"Committee"** means a share option compensation committee appointed by the Board, which shall consist of no fewer than two members of the Board.

2.8 **"Company"** means Perion Network Ltd., an Israeli company.

2.9 **"Companies Law"** means the Israeli Companies Law 5759-1999.

2.10 "**Controlling Shareholder**" shall have the meaning ascribed to it in Section 32(9) of the Ordinance.

2.11 **"Date of Grant"** means, the date of grant of an Option, as determined by the Board and set forth in the Optionee's Option Agreement.

2.12 **"Employee"** means a person who is employed by the Company or its Affiliates, including an individual who is serving as a director or an office holder, but excluding Controlling Shareholder.

2.13 **"Expiration date"** means the date upon which an Option shall expire, as set forth in Section 10.2 of the ISOP.

2.14 **"Fair Market Value"** means as of any date, the value of a Share determined as follows:

(i) If the Shares are listed on any established stock exchange or a national market system, including without limitation the NASDAQ National Market system, or the NASDAQ SmallCap Market of the NASDAQ Stock Market, the Fair Market Value shall be the closing sales price for such Shares (or the closing bid, if no sales were reported), as quoted on such exchange or system for the last market trading day prior to time of determination, as reported in the Wall Street Journal, or such other source as the Board deems reliable. Without derogating from the above, solely for the purpose of determining the tax liability pursuant to Section 102(b)(3) of the Ordinance, if at the Date of Grant the Company's shares are listed on any established stock exchange or a national market system or if the Company's shares will be registered for trading within ninety (90) days following the Date of Grant, the Fair Market Value of a Share at the Date of Grant shall be determined in accordance with the average value of the Company's shares on the thirty (30) trading days preceding the Date of Grant or on the thirty (30) trading days following the date of registration for trading, as the case may be;

(ii) If the Shares are regularly quoted by a recognized securities dealer but selling prices are not reported, the Fair Market Value shall be the mean between the high bid and low asked prices for the Shares on the last market trading day prior to the day of determination, or;

(iii) In the absence of an established market for the Shares, the Fair Market Value thereof shall be determined in good faith by the Board.

2.15 **"IPO"** means the initial public offering of the Company's shares.

2.16 **"ISOP"** means this 2003 Israeli Share Option Plan.

2.17 "**ITA"** means the Israeli Tax Authorities.

2.18 **"Non-Employee"** means a consultant, adviser, service provider, Controlling Shareholder or any other person who is not an Employee.

2.19 "**Ordinary Income Option (OIO)**" as defined in Section 5.5 below.

2.20 **"Option"** means an option to purchase one or more Shares of the Company pursuant to the ISOP.

2.21 **"102 Option"** means any Option granted to Employees pursuant to Section 102 of the Ordinance.

2.22 **"3(i) Option"** means an Option granted pursuant to Section 3(i) of the Ordinance to any person who is Non- Employee.

2.23 **"Optionee"** means a person who receives or holds an Option under the ISOP.

2.24 **"Option Agreement"** means the share option agreement between the Company and an Optionee that sets out the terms and conditions of an Option.

2.25 "**Ordinance"** means the 1961 Israeli Income Tax Ordinance [New Version] 1961 as now in effect or as hereafter amended.

2.26 **"Purchase Price"** means the price for each Share subject to an Option.

2.27 **"Section 102"** means section 102 of the Ordinance as now in effect or as hereafter amended.

2.28 **"Share"** means the ordinary shares, NIS 0.01 par value each, of the Company.

2.29 **"Successor Company"** means any entity the Company is merged to or is acquired by, in which the Company is not the surviving entity.

2.30 **"Transaction"** means (i) 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.

2.31 **"Trustee"** means any individual appointed by the Company to serve as a trustee and approved by the ITA, all in accordance with the provisions of Section 102(a) of the Ordinance.

2.32 "**Unapproved 102 Option**" means an Option granted pursuant to Section 102(c) of the Ordinance and not held in trust by a Trustee.

2.33 **"Vested Option"** means any Option, which has already been vested according to the Vesting Dates.

2.34 **"Vesting Dates"** means, as determined by the Board or by the Committee, the date as of which the Optionee shall be entitled to exercise the Options or part of the Options, as set forth in section 11 of the ISOP.

3. ADMINISTRATION OF THE ISOP

3.1 The Board shall have the power to administer the ISOP either directly or upon the recommendation of the Committee, all as provided by applicable law and in the Company's Articles of Association. Notwithstanding the above, the Board shall automatically have residual authority if no Committee shall be constituted or if such Committee shall cease to operate for any reason.

3.2 The Committee shall select one of its members as its Chairman and shall hold its meetings at such times and places as the Chairman shall determine. The Committee shall keep records of its meetings and shall make such rules and regulations for the conduct of its business as it shall deem advisable.

3.3 The Committee shall have the power to recommend to the Board and the Board shall have the full power and authority to: (i) designate participants; (ii) determine the terms and provisions of the respective Option Agreements, including, but not limited to, the number of Options to be granted to each Optionee, the number of Shares to be covered by each Option, provisions concerning the time and the extent to which the Options may be exercised and the nature and duration of restrictions as to the transferability or restrictions constituting substantial risk of forfeiture and to cancel or suspend awards, as necessary; (iii) determine the Fair Market Value of the Shares covered by each Option; (iv) make an election as to the type of 102 Approved Option; and (v) designate the type of Options.

The Committee shall have full power and authority to :(i) alter any restrictions and conditions of any Options or Shares subject to any Options (ii) interpret the provisions and supervise the administration of the ISOP; (iii) accelerate the right of an Optionee to exercise in whole or in part, any previously granted Option; (iv) determine the Purchase Price of the Option; (v) prescribe, amend and rescind rules and regulations relating to the ISOP; and (vi) make all other determinations deemed necessary or advisable for the administration of the ISOP, including, without limitation, to adjust the terms of the ISOP or any Option Agreement so as to reflect (a) changes in applicable laws and (b) the laws of other jurisdictions within which the Company wishes to grant Options.

3.4 Notwithstanding the above, the Committee shall not be entitled to grant Options to the Optionees, however, it will be authorized to issue Shares underlying Options which have been granted by the Board and duly exercised pursuant to the provisions herein in accordance with section 112(a)(5) of the Companies Law.

3.5 The Board shall have the authority to grant, at its discretion, to the holder of an outstanding Option, in exchange for the surrender and cancellation of such Option, a new Option having a purchase price equal to, lower than or higher than the Purchase Price of the original Option so surrendered and canceled and containing such other terms and conditions as the Committee may prescribe in accordance with the provisions of the ISOP.

3.6 Subject to the Company's Articles of Association, all decisions and selections made by the Board or the Committee pursuant to the provisions of the ISOP shall be made by a majority of its members except that no member of the Board or the Committee shall vote on, or be counted for quorum purposes, with respect to any proposed action of the Board or the Committee relating to any Option to be granted to that member. Any decision reduced to writing shall be executed in accordance with the provisions of the Company's Articles of Association, as the same may be in effect from time to time.

3.7 The interpretation and construction by the Committee of any provision of the ISOP or of any Option Agreement thereunder shall be final and conclusive unless otherwise determined by the Board.

3.8 Subject to the Company's Articles of Association and the Company's decision, and to all approvals legally required, including, but not limited to the provisions of the Companies Law, each member of the Board or the Committee shall be indemnified and held harmless by the Company against any cost or expense (including counsel fees) reasonably incurred by him, or any liability (including any sum paid in settlement of a claim with the approval of the Company) arising out of any act or omission to act in connection with the ISOP unless arising out of such member's own fraud or bad faith, to the extent permitted by applicable law. Such indemnification shall be in addition to any rights of indemnification the member may have as a director or otherwise under the Company's Articles of Association, any agreement, any vote of shareholders or disinterested directors, insurance policy or otherwise.

4. DESIGNATION OF PARTICIPANTS

4.1 The persons eligible for participation in the ISOP as Optionees shall include any Employees and/or Non-Employees of the Company or of any Affiliate; provided, however, that (i) Employees who are Israeli residents for tax purposes may only be granted 102 Options; (ii) Non-Employees who are Israeli residents for tax purposes may only be granted 3(i) Options; (iii) Controlling Shareholders who are Israeli residents for tax purposes may only be granted 3(i) Options; and (iv) U.S. Persons may only be granted Options in accordance with the Addendum.

4.2 The grant of an Option hereunder shall neither entitle the Optionee to participate nor disqualify the Optionee from participating in, any other grant of Options pursuant to the ISOP or any other option or share plan of the Company or any of its Affiliates.

4.3 Anything in the ISOP to the contrary notwithstanding, all grants of Options to directors and office holders shall be authorized and implemented in accordance with the provisions of the Companies Law or any successor act or regulation, as in effect from time to time.

5. DESIGNATION OF OPTIONS PURSUANT TO SECTION 102

5.1 The Company may designate Options granted to Employees pursuant to Section 102 as Unapproved 102 Options or Approved 102 Options.

5.2 The grant of Approved 102 Options shall be made under this ISOP adopted by the Board as described in Section 15 below, and shall be conditioned upon the approval of this ISOP by the ITA.

5.3 Approved 102 Option may either be classified as Capital Gain Option ("**CGO**") or Ordinary Income Option ("**OIO**").

5.4 Approved 102 Option elected and designated by the Company to qualify under the capital gain tax treatment in accordance with the provisions of Section 102(b)(2) shall be referred to herein as **CGO**.

5.5 Approved 102 Option elected and designated by the Company to qualify under the ordinary income tax treatment in accordance with the provisions of Section 102(b)(1) shall be referred to herein as **OIO**.

5.6 The Company's election of the type of Approved 102 Options as CGI or OIO granted to Employees (the "**Election**"), shall be appropriately filed with the ITA in the framework of the request for the approval of this ISOP, which shall be submitted to ITA at least 30 days prior to the Date of Grant of an Approved 102 Option. Such Election shall become effective beginning the first Date of Grant of an Approved 102 Option under this ISOP and shall remain in effect until the end of the year following the year during which the Company first granted Approved 102 Options. The Election shall obligate the Company to grant *only* the type of Approved 102 Option it has elected, and shall apply to all Optionees who were granted Approved 102 Options during the period indicated herein, all in accordance with the provisions of Section 102(g) of the Ordinance. For the avoidance of doubt, such Election shall not prevent the Company from granting Unapproved 102 Options simultaneously.

5.7 All Approved 102 Options must be held in trust by a Trustee, as described in Section 6 below**.**

5.8 For the avoidance of doubt, the designation of Unapproved 102 Options and Approved 102 Options shall be subject to the terms and conditions set forth in Section 102 of the Ordinance and the regulations promulgated thereunder.

5.9 The provisions of the ISOP and/or the Option Agreement shall be subject to the provisions of Section 102 and the Tax Assessing Officer's permit, and the said provisions and permit shall be deemed an integral part of the ISOP and of the Option Agreement. Any provision of Section 102 and/or the said permit which is necessary in order to receive and/or to keep any tax benefit pursuant to Section 102, which is not expressly specified in the ISOP or the Option Agreement, shall be considered binding upon the Company and the Optionees.

6. TRUSTEE

6.1 Approved 102 Options which shall be granted under the ISOP and/or any Shares allocated or issued upon exercise of such Approved 102 Options and/or other shares received subsequently following any realization of rights and/or any rights granted to the Optionee by virtue of the Approved 102 Options (including bonus shares), shall be allocated or issued to the Trustee and held for the benefit of the Optionees for such period of time as required by Section 102 or any regulations, rules or orders or procedures promulgated thereunder, and in accordance with the Election made by the Company according to section 5.5 above.

6.2 Notwithstanding anything to the contrary, the Trustee shall not release any Shares allocated or issued upon exercise of Approved 102 Options prior to the full payment of the Optionee's tax liabilities arising from Approved 102 Options which were granted to him and/or any Shares allocated or issued upon exercise of such Options.

6.3 Upon receipt of Approved 102 Option, the Optionee will sign an undertaking to release the Trustee from any liability in respect of any action or decision duly taken and bona fide executed in relation with the ISOP, or any Approved 102 Option or Share granted to him thereunder.

7. SHARES RESERVED FOR THE ISOP; RESTRICTION THEREON

7.1 The Company has reserved 4,368,000 (four million three hundred and sixty eight thousand) authorized but unissued Shares, for the purposes of the ISOP, subject to adjustment as set forth in Section 9 below. Any Shares which remain unissued and which are not subject to the outstanding Options at the termination of the ISOP shall cease to be reserved for the purpose of the ISOP. Should any Option for any reason expire or be canceled prior to its exercise or relinquishment in full, the Shares subject to such Option may again be subjected to an Option under the ISOP or under the Company's other share option plans.

7.2 Each Option granted pursuant to the ISOP, shall be evidenced by a written Option Agreement between the Company and the Optionee, in such form as the Board or the Committee shall from time to time approve. Each Option Agreement shall state, among other matters, the number of Shares to which the Option relates, the type of Option granted thereunder (whether a CGI, OIO, Unapproved 102 Option or a 3(i) Option), the Vesting Dates, the Purchase Price per share, the Expiration Date and such other terms and conditions as the Committee or the Board in its discretion may prescribe, provided that they are consistent with this ISOP.

7.3 Until the consummation of an IPO, such Shares shall be voted by an irrevocable proxy (the "**Proxy**") pursuant to the directions of the Board, such Proxy to be assigned to the person or persons designated by the Board. Such person or persons designated by the Board shall be indemnified and held harmless by the Company against any cost or expense (including counsel fees) reasonably incurred by him/her, or any liability (including any sum paid in settlement of a claim with the approval of the Company) arising out of any act or omission to act in connection with the voting of such Proxy unless arising out of such member's own fraud or bad faith, to the extent permitted by applicable law. Such indemnification shall be in addition to any rights of indemnification the person(s) may have as a director or otherwise under the Company's Articles of Association, any agreement, any vote of shareholders or disinterested directors, insurance policy or otherwise.

8. PURCHASE PRICE

8.1 The Purchase Price of each Share subject to an Option shall be determined by the Committee in its sole and absolute discretion in accordance with applicable law, subject to any guidelines as may be determined by the Board from time to time. Each Option Agreement will contain the Purchase Price determined for each Optionee.

8.2 The Purchase Price shall be payable upon the exercise of the Option in a form satisfactory to the Committee, including without limitation, by cash or check. Notwithstanding the forms of exercise of Options specified herein, the Company may (at its full and exclusive discretion), effectuate the exercise of the Options in a cash-less exercise or net-exercise, if and when, the Optionee instructs to exercise his Options for an immediate sale. The Committee shall have the authority to postpone the date of payment on such terms as it may determine.

8.3 The Purchase Price shall be denominated in the currency of the primary economic environment of, either the Company or the Optionee (that is the functional currency of the Company or the currency in which the Optionee is paid) as determined by the Company.

9. ADJUSTMENTS

Upon the occurrence of any of the following described events, Optionee's rights to purchase Shares under the ISOP shall be adjusted as hereafter provided:

9.1 In the event of Transaction, the unexercised Options then outstanding under the ISOP shall be assumed or substituted for an appropriate number of shares of each class of shares or other securities of the Successor Company (or a parent or subsidiary of the Successor Company) as were distributed to the shareholders of the Company in connection and with respect to the Transaction. In the case of such assumption and/or substitution of Options, appropriate adjustments shall be made to the Purchase Price so as to reflect such action and all other terms and conditions of the Option Agreements shall remain unchanged, including but not limited to the vesting schedule, all subject to the determination of the Committee or the Board, which determination shall be in their sole discretion and final. The Company shall notify the Optionee of the Transaction in such form and method as it deems applicable at least ten (10) days prior to the effective date of such Transaction.

9.2 Notwithstanding the above and subject to any applicable law, the Board or the Committee shall have full power and authority to determine that in certain Option Agreements there shall be a clause instructing that, if in any such Transaction as described in section 9.1 above, the Successor Company (or parent or subsidiary of the Successor Company) does not agree to assume or substitute for the Options, the Vesting Dates shall be accelerated so that any unvested Option or any portion thereof shall be immediately vested as of the date which is ten (10) days prior to the effective date of the Transaction.

9.3 For the purposes of section 9.1 above, an Option shall be considered assumed or substituted if, following the Transaction, the Option confers the right to purchase or receive, for each Share underlying an Option immediately prior to the Transaction, the consideration (whether shares, options, cash, or other securities or property) received in the Transaction by holders of shares held on the effective date of the Transaction (and if such holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding shares); provided, however, that if such consideration received in the Transaction is not solely ordinary shares (or their equivalent) of the Successor Company or its parent or subsidiary, the Committee may, with the consent of the Successor Company, provide for the consideration to be received upon the exercise of the Option to be solely ordinary shares (or their equivalent) of the Successor Company or its parent or subsidiary equal in Fair Market Value to the per Share consideration received by holders of a majority of the outstanding shares in the Transaction; and provided further that the Committee may determine, in its discretion, that in lieu of such assumption or substitution of Options for options of the Successor Company or its parent or subsidiary, such Options will be substituted for any other type of asset or property including cash which is fair under the circumstances.

9.4 If the Company is voluntarily liquidated or dissolved while unexercised Options remain outstanding under the ISOP, the Company shall immediately notify all unexercised Option holders of such liquidation, and the Option holders shall then have ten (10) days to exercise any unexercised Vested Option held by them at that time, in accordance with the exercise procedure set forth herein. Upon the expiration of such ten-days period, all remaining outstanding Options will terminate immediately.

9.5 If the outstanding shares of the Company shall at any time be changed or exchanged by declaration of a share dividend (bonus shares), share split, combination or exchange of shares, recapitalization, or any other like event by or of the Company, and as often as the same shall occur, then the number, class and kind of the Shares subject to the ISOP or subject to any Options therefore granted, and the Purchase Prices, shall be appropriately and equitably adjusted so as to maintain the proportionate number of Shares without changing the aggregate Purchase Price, provided, however, that no adjustment shall be made by reason of the distribution of subscription rights (rights offering) on outstanding shares. Upon happening of any of the foregoing, the class and aggregate number of Shares issuable pursuant to the ISOP (as set forth in Section 7 hereof), in respect of which Options have not yet been exercised, shall be appropriately adjusted, all as will be determined by the Board whose determination shall be final.

9.6 Anything herein to the contrary notwithstanding, if prior to the completion of the IPO all or substantially all of the shares of the Company are to be sold, or in case of a Transaction, all or substantially all of the shares of the Company are to be exchanged for securities of another Company, then each Optionee shall be obliged to sell or exchange, as the case may be, any Shares such Optionee purchased under the ISOP, in accordance with the instructions issued by the Board in connection with the Transaction, whose determination shall be final.

9.7 The Optionee acknowledges that in the event that the Company's shares shall be registered for trading in any public market, Optionee's rights to sell the Shares may be subject to certain limitations (including a lock-up period), as will be requested by the Company or its underwriters, and the Optionee unconditionally agrees and accepts any such limitations.

9.8 Without derogating from the provisions of section 20 below, it is hereby clarified that any tax consequences arising from the exercise of the provisions of this section 9, shall be borne solely by the Optionee

10. TERM AND EXERCISE OF OPTIONS

10.1 Options shall be exercised by the Optionee by giving written notice to the Company and/or to any third party designated by the Company (the "**Representative**"), in such form and method as may be determined by the Company and when applicable, by the Trustee in accordance with the requirements of Section 102, which exercise shall be effective upon receipt of such notice by the Company and/or the Representative and the payment of the Purchase Price at the Company's or the Representative's principal office. The notice shall specify the number of Shares with respect to which the Option is being exercised.

10.2 Options, to the extent not previously exercised, shall terminate forthwith upon the earlier of: (i) the date set forth in the Option Agreement; and (ii) the expiration of any extended period in any of the events set forth in section 10.5 below.

10.3 (a) The Options may be exercised by the Optionee in whole at any time or in part from time to time, to the extent that the Options become vested and exercisable, prior to the Expiration Date, and provided that, subject to the provisions of section 10.5 below, the Optionee is employed by or providing services to the Company or any of its Affiliates, at all times during the period beginning with the granting of the Option and ending upon the date of exercise.

(b) Notwithstanding anything to the contrary hereinabove, Options shall not be exercised on the determining date with respect to the distribution of bonus shares, offer by way of rights issue, distribution of dividends, consolidation of share capital, consolidation of shares, reduction or split in share capital or company split (each hereinafter referred to as a "**Corporate Event**"). In addition, if the Ex Date with respect to a Corporate Event occurs before the determining date relating to such Corporate Event, then the exercise of Options shall not occur on such Ex Date.

The limitations pursuant to this subsection 10.3(b) shall be in effect only as long as the Company's securities are traded on the Tel-Aviv Stock Exchange (the "**TASE**").

10.4 In the event of termination of employment or service, the unvested portion of the Optionee's Option shall not vest and shall not become exercisable. The termination of employer-employee relations or cessation of service shall constitute termination of employment or service. In the event of termination of employment or service Vested Options granted to such Optionee shall expire unless extended pursuant to the provisions of section 10.5 below.

10.5 Notwithstanding anything to the contrary hereinabove and unless otherwise determined in the Optionee's Option Agreement, an Option may be exercised after the date of termination of Optionee's employment or service with the Company or any Affiliates during an additional period of time beyond the date of such termination, but only with respect to the number of Vested Options at the time of such termination according to the Vesting Dates, if**:**

(i) termination is without Cause, in which event any Vested Option still in force and unexpired may be exercised within a period of ninety (90) days after the date of such termination; or-

(ii) termination is the result of death or disability of the Optionee, in which event any Vested Option still in force and unexpired may be exercised within a period of twelve (12) months after the date of such termination; or -

(iii) at any time, the Committee shall authorize an extension of the terms of all or part of the Vested Options beyond the date of such termination for a period not to exceed the period during which the Options by their terms would otherwise have been exercisable.

For avoidance of any doubt, if termination of employment or service is for Cause, any outstanding unexercised Option (whether vested or non-vested), will immediately expire and terminate, and the Optionee shall not have any right in connection to such outstanding Options.

10.6 Notwithstanding the foregoing provisions of Section 10.3 to 10.5, unless determined otherwise by the Committee, and for the avoidance of doubt, the transfer of an Optionee from the employ or service of the Company to the employ or service of an Affiliate, or from the employ or service of an Affiliate to the employ or service of the Company or another Affiliate, shall not be deemed a termination of employment or service for purposes hereof.

10.7 In the event of termination of employment or service of an Optionee of Unapproved 102 Option, than such Optionee shall be required, as a condition to his right to exercise the option granted to him, to secure the due, timely and complete payment of any tax duty imposed upon him (including in accordance with section 20 below), by the submission to the Company of any security or guaranty approved, in advance, by the Board or the Committee.

10.8 The Optionees shall not have any of the rights or privileges of shareholders of the Company in respect of any Shares purchasable upon the exercise of any Option, nor shall they be deemed to be a class of shareholders or creditors of the Company for purpose of the operation of sections 350 and 351 of the Companies Law or any successor to such section, until registration of the Optionee as holder of such Shares in the Company's register of shareholders upon exercise of the Option in accordance with the provisions of the ISOP, but in case of Options and Shares held by the Trustee, subject to the provisions of Section 6 of the ISOP.

10.9 Any form of Option Agreement authorized by the ISOP may contain such other provisions as the Committee may, from time to time, deem advisable.

11. VESTING OF OPTIONS

11.1 Subject to the provisions of the ISOP, each Option shall vest following the Vesting Dates and for the number of Shares as shall be provided in the Option Agreement. However, no Option shall be exercisable after the Expiration Date.

11.2 An Option may be subject to such other terms and conditions on the time or times when it may be exercised, as the Committee may deem appropriate. The vesting provisions of individual Options may vary.

12. SHARES SUBJECT TO RIGHT OF FIRST REFUSAL

12.1 Notwithstanding anything to the contrary in the Articles of Association of the Company, none of the Optionees shall have a right of first refusal in relation with any sale of shares in the Company.

12.2 Unless otherwise determined by the Committee, until such time as the Company shall complete an IPO, an Optionee shall not have the right to sell Shares issued upon the exercise of an Option within six (6) months and one day from the date of exercise of such Option. Unless otherwise determined by the Committee, until such time as the Company shall complete an IPO, the sale of Shares issuable upon the exercise of an Option shall be subject to a right of first refusal on the part of the Repurchaser(s).

Repurchaser(s) means (i) the Company, if permitted by applicable law, (ii) if the Company is not permitted by applicable law, then any affiliate of the Company designated by the Committee; or (iii) if no decision is reached by the Committee, then the Company's existing shareholders (save, for avoidance of doubt, for other Optionees who already exercised their Options), pro rata in accordance with their shareholding. The Optionee shall give a notice of sale (hereinafter the "**Notice**") to the Company in order to offer the Shares to the Repurchaser(s).

12.3 The Notice shall specify the name of each proposed purchaser or other transferee (hereinafter the "**Proposed Transferee**"), the number of Shares offered for sale (hereinafter the **"Offered Shares"**), the price per Share and the payment terms. The Repurchaser(s) will be entitled for thirty (30) days from the day of receipt of the Notice (hereinafter the "**Notice Period**"), to purchase all or part of the Offered Shares on a pro rata basis based upon their respective holdings in the Company.

12.4 If by the end of the Notice Period not all of the Offered Shares have been purchased by the Repurchaser(s), then any remaining Offered Shares shall be re-allocated among the accepting Repurchaser(s) (other than those to be disregarded as aforesaid), in the same manner specified in sections 12.2 and 12.3 above.

If the acceptance by the Repurchaser(s), in the aggregate, are in respect of less than the number of Offered Shares, then the Optionee shall be entitled to sell such remaining Shares at any time during the ninety (90) days following the end of the Notice Period on terms not more favorable than those set out in the Notice, provided that the Proposed Transferee agrees in writing that the provisions of this section shall continue to apply to the Shares in the hands of such Proposed Transferee.

Any sale of Shares issued under the ISOP by the Optionee that is not made in accordance with the ISOP or the Option Agreement shall be null and void.

13. DIVIDENDS

13.1 With respect to all Shares (but excluding, for avoidance of any doubt, any unexercised Options) allocated or issued upon the exercise of Options purchased by the Optionee and held by the Optionee or by the Trustee, as the case may be, the Optionee shall be entitled to receive dividends in accordance with the quantity of such Shares, subject to the provisions of the Company's Articles of Association (and all amendments thereto) and subject to any applicable taxation on distribution of dividends.

13.2 During the period in which Shares are held by the Trustee on behalf of the Optionee, the cash dividends paid with respect thereto shall be paid directly to the Optionee, after deduction of any tax imposed on such cash dividends.

14. RESTRICTIONS ON ASSIGNABILITY AND SALE OF OPTIONS

14.1 No Option or any right with respect thereto, purchasable hereunder, whether fully paid or not, shall be assignable, transferable or given as collateral or any right with respect to it given to any third party whatsoever, except as specifically allowed under the ISOP, and during the lifetime of the Optionee each and all of such Optionee's rights to purchase Shares hereunder shall be exercisable only by the Optionee.

Any such action made directly or indirectly, for an immediate validation or for a future one, shall be void.

14.2 As long as Options and/or Shares are held by the Trustee on behalf of the Optionee, all rights of the Optionee over the Shares are personal, cannot be transferred, assigned, pledged or mortgaged, other than by will or pursuant to the laws of descent and distribution.

15. EFFECTIVE DATE AND DURATION OF THE ISOP

The ISOP became effective as of the day it was adopted by the Board and shall terminate (except as to Options outstanding on that date) December 9th, 2022, being ten (10) years from the date upon which the Board adopted an amendment extending the term of the Plan from its original expiration date, for a period of time which ends 10 years from the date of the adoption of such amendment by the Board.

16. AMENDMENTS OR TERMINATION

The Board may at any time amend, alter, suspend or terminate the ISOP. No amendment, alteration, suspension or termination of the ISOP shall impair the rights of any Optionee, unless mutually agreed otherwise between the Optionee and the Company, which agreement must be in writing and signed by the Optionee and the Company. Termination of the ISOP shall not affect the Committee's ability to exercise the powers granted to it hereunder with respect to Options granted under the ISOP prior to the date of such termination.

17. GOVERNMENT REGULATIONS

(a) The ISOP, and the granting and exercise of Options hereunder, and the obligation of the Company to sell and deliver Shares under such Options, shall be subject to all applicable laws, rules, and regulations, whether of the State of Israel or of the United States or any other State having jurisdiction over the Company and the Optionee, including the registration of the Shares under the United States Securities Act of 1933, and the Ordinance and to such approvals by any governmental agencies or national securities exchanges as may be required. Nothing herein shall be deemed to require the Company to register the Shares under the securities laws of any jurisdiction.

(b) For the avoidance of doubt, as long as the Company's securities are traded on the TASE, the provisions of this ISOP shall be subject to the directives, rules and regulations of the TASE, as those are established from time to time ("**TASE Directives**"). In the event that any of the provisions of this ISOP do not comply with the TASE Directives, the Board shall be entitled to automatically amend the provisions of this ISOP in order to comply with the TASE Directives.

18. CONTINUANCE OF EMPLOYMENT OR HIRED SERVICES

Neither the ISOP nor the Option Agreement with the Optionee shall impose any obligation on the Company or an Affiliate thereof, to continue any Optionee in its employ or service, and nothing in the ISOP or in any Option granted pursuant thereto shall confer upon any Optionee any right to continue in the employ or service of the Company or an Affiliate thereof or restrict the right of the Company or an Affiliate thereof to terminate such employment or service at any time.

19. GOVERNING LAW & JURISDICTION

The ISOP shall be governed by and construed and enforced in accordance with the laws of the State of Israel applicable to contracts made and to be performed therein, without giving effect to the principles of conflict of laws. The competent courts of Tel-Aviv, Israel shall have sole jurisdiction in any matters pertaining to the ISOP.

20. TAX CONSEQUENCES

20.1 Any tax consequences arising from the grant or exercise of any Option, from the payment for Shares covered thereby or from any other event or act (of the Company and/or its Affiliates, the Trustee or the Optionee), hereunder, shall be borne solely by the Optionee. The Company and/or its Affiliates and/or the Trustee shall withhold taxes according to the requirements under the applicable laws, rules, and regulations, including withholding taxes at source. Furthermore, the Optionee shall agree to indemnify the Company and/or its Affiliates and/or the Trustee and hold them harmless against and from any and all liability for any such tax or interest or penalty thereon, including without limitation, liabilities relating to the necessity to withhold, or to have withheld, any such tax from any payment made to the Optionee.

20.2 The Company and/or, when applicable, the Trustee shall not be required to release any Share certificate to an Optionee until all required payments have been fully made.

20.3 To the extent provided by the terms of an Option Agreement, the Optionee may satisfy any tax withholding obligation relating to the exercise or acquisition of Shares under an Option by any of the following means (in addition to the Company's right to withhold from any compensation paid to the Optionee by the Company) or by a combination of such means: (i) tendering a cash payment; (ii) subject to the Committee's approval on the payment date, authorizing the Company to withhold Shares from the Shares otherwise issuable to the Optionee as a result of the exercise or acquisition of Shares under the Option in an amount not to exceed the minimum amount of tax required to be withheld by law; or (iii) subject to Committee approval on the payment date, delivering to the Company owned and unencumbered Shares; provided that Shares acquired on exercise of Options have been held for at least 6 months from the date of exercise.

21. NON-EXCLUSIVITY OF THE ISOP

The adoption of the ISOP by the Board shall not be construed as amending, modifying or rescinding any previously approved incentive arrangements or as creating any limitations on the power of the Board to adopt such other incentive arrangements as it may deem desirable, including, without limitation, the granting of Options otherwise than under the ISOP, and such arrangements may be either applicable generally or only in specific cases.

For the avoidance of doubt, prior grant of options to Optionees of the Company under their employment agreements, and not in the framework of any previous option plan, shall not be deemed an approved incentive arrangement for the purpose of this Section.

22. MULTIPLE AGREEMENTS

The terms of each Option may differ from other Options granted under the ISOP at the same time, or at any other time. The Board may also grant more than one Option to a given Optionee during the term of the ISOP, either in addition to, or in substitution for, one or more Options previously granted to that Optionee.

U.S. Addendum to Perion Network Ltd. 2003 Israeli Share Option Plan

1. Purpose of the Addendum

This Addendum is incorporated as part of the Perion Network Ltd. 2003 Israeli Share Option Plan (the **"ISOP**"). All terms not otherwise defined herein shall have the meaning ascribed to them in the ISOP. This Addendum governs grants of Options to U.S. Persons (as defined below).

2. Provisions of the Addendum

In connection with U.S. Persons, the provisions of this Addendum shall supersede and govern in the case of any inconsistency between the provisions of this Addendum and the provisions of the ISOP, provided, however, that this Addendum shall not be construed to grant to any Optionee rights not consistent with the terms of the ISOP, unless specifically provided herein.

3. Eligibility

The individuals who shall be eligible to receive Options under the ISOP that are subject to the provisions of this Addendum shall be employees, directors and other individuals who are United States citizens or who are resident aliens of the United States for United States federal tax purposes (collectively, "**U.S. Persons**"), and who render services to the management, operation or development of the Company or a Subsidiary and who have contributed or may be expected to contribute materially to the success of the Company or a Subsidiary. ISOs (as defined in Paragraph 5 below) shall not be granted to any individual who is not an employee of a corporation for United States federal tax purposes. The term "**Subsidiary**" as used in this Addendum means a corporation or other business entity of which the Company owns, directly or indirectly through an unbroken chain of ownership, fifty percent or more of the total combined voting power of all classes of stock.

4. Aggregate Maximum Number of Shares Eligible for Options

As of Janaury 20, 2011, the aggregate maximum number of Shares that may be issued under the ISOP is 3,368,000, as such number may be adjusted in accordance with the ISOP.

5. Terms and Conditions of Options

Every Option granted to a U.S. Person shall be evidenced by a written Option Agreement in such form as the Board or the Committee shall approve from time to time, specifying the number of Shares that may be purchased pursuant to the Option, the Purchase Price, the time or times at which the Option shall become exercisable in whole or in part, whether the Option is intended to be an incentive stock option under Section 422 of the Code ("**ISO**") or a nonqualified stock option ("**NSO**") and such other terms and conditions as the Board or the Committee shall approve, and containing or incorporating by reference the following terms and conditions. The ISOP and this Addendum shall be administered in such a manner as to permit those Options granted hereunder and specially designated as an ISO to qualify as incentive stock options as described in Section 422 of the Code. To the extent the Board or the Committee determines it to be desirable to qualify Options granted under this Addendum as "performance-based compensation" within the meaning of Section 162(m) of the Code, grants of such Options shall be administered by a committee of two or more "outside directors" within the meaning of Section 162(m) of the Code and shall be made in accordance with the requirements of the "performance-based compensation" exception of Section 162(m) and the regulations thereunder.

(a) Duration. Each Option shall expire no later than ten (10) years from its date of grant. No ISO granted to an Optionee who owns (directly or under the attribution rules of Section 424(d) of the Code) shares possessing more than ten percent of the total combined voting power of all classes of shares of the Company or any Subsidiary shall expire later than five (5) years from its date of grant.

(b) Purchase Price. The Purchase Price of each Option shall be as specified by the Board or the Committee in its discretion; provided, however, that the Purchase Price shall be at least 100 percent of the Fair Market Value of the Shares on the date on which the Board or the Committee grants the Option, which shall be considered the date of grant of the Option for purposes of fixing the Purchase Price; and provided, further, that the Purchase Price with respect to an ISO granted to an Optionee who at the time of grant owns (directly or under the attribution rules of Section 424(d) of the Code) shares representing more than ten percent (10%) of the voting power of all classes of shares of the Company or of any Subsidiary shall be at least 110 percent of the Fair Market Value of the Shares on the date of grant of the ISO.

(c) Notice of ISO Stock Disposition. The Optionee must notify the Company promptly in the event that the Optionee sells, transfers, exchanges or otherwise disposes of any Shares issued upon exercise of an ISO before the later of (i) the second anniversary of the date of grant of the ISO or (ii) the first anniversary of the date the shares were issued upon the Optionee's exercise of the ISO.

(d) $100,000 Limit for ISOs. The aggregate Fair Market Value (determined at the date of grant) of the Shares with respect to which ISOs granted to an Optionee and any incentive stock options granted to such Optionee under any other stock option plan of the Company, any Subsidiary or any predecessor corporation are exercisable for the first time by such Optionee during any calendar year shall not exceed U.S. $100,000, or such other limit as may be prescribed by the Code.

6. Requirements of Law

(a) The Company shall not be required to transfer Shares or to sell or issue any Shares upon the exercise of any Option if the issuance of such Shares will result in a violation by the Optionee, the Company or any Subsidiary of any provisions of any law, statute or regulation of any governmental authority. Specifically, in connection with the United States Securities Act of 1933, as amended from time to time (the " **Securities Act**"), upon the exercise of any Option, the Company shall not be required to issue Shares unless the Board or the Committee has received evidence satisfactory to it to the effect that the Optionee will not transfer such Shares except pursuant to a registration statement in effect under the Securities Act or unless an opinion of counsel satisfactory to the Company has been received by the Company to the effect that registration is not required. Any determination in this connection by the Board or the Committee shall be conclusive. The Company shall not be obligated to take any other affirmative action in order to cause the exercise of an Option to comply with any law or regulations of any governmental authority, including, without limitation, the Securities Act or applicable state securities laws.

(b) All other provisions of this Addendum and the ISOP notwithstanding, this Addendum and the ISOP shall be administered and construed so as to avoid any person who receives an Option grant incurring any adverse tax consequences under Code Section 409A. The Board or the Committee shall suspend the application of any provisions of the ISOP which could, in its sole determination, result in an adverse tax consequence to any person under Code Section 409A.

7. Tax Withholding and Reporting

To the extent required by law, the Company shall withhold or cause to be withheld income and other taxes with respect to any income recognized by an Optionee by reason of the exercise of an Option, and as a condition to the receipt of any Option the Optionee shall agree that if the amount payable to the Optionee by the Company and any Subsidiary in the ordinary course is insufficient to pay such taxes, then the Optionee shall upon the request of the Company pay to the Company or a designated Subsidiary an amount sufficient to satisfy its tax. As a condition to receiving the grant of any Option, the Optionee shall further agree to comply with any applicable tax and legal reporting obligations with respect to the Option.

Exhibit 4.2

AMENDMENT AGREEMENT

This amendment **("Amendment")** to the Agreement (as defined below) is entered into by and between:

(1) Google Ireland Limited, a company incorporated under the laws of Ireland whose principal place of business is at Gordon House, Barrow Street, Dublin 4, Ireland **("Google");** and

(2) **Incredimail Ltd,** whose principal place of business is at 4 Hanechoshet St., Tel Aviv, Israel **("Company");** and

This Amendment shall be effective from 1 February 2013 (the **"Effective Date"). INTRODUCTION**

(A) Google and Company are parties to a Google Search and Advertising Services Agreement and a Google Search **("GSA")** and Agvertising Services Agreement Order Form **("Order Form")** with an effective date of 01 January 2011 (together, the **"Agreement").**

(B) The parties now wish to amend the Agreement in the manner set out in this Amendment.

AGREED TERMS

1. Definitions

Capitalised terms used but not defined in this Amendment shall have the same meaning as in the Agreement.

2. The parties agree that the Agreement is extended until 31 May 2013.

3. The parties agree that the "Special Terms and Conditions" section of the Order Form is amended as follows:

a) Google may assign to Company, and modify the number of Client IDs and Channel IDs for each Service from time to time. Company will use Client IDs and Channel IDs as instructed by Google, and will provide such information to Google as may reasonably request with respect to the use and application of any Client IDs and Channel IDs.

b) For the purposes of this Agreement, "Channel ID" means a unique alphanumeric code used by Company as specified by Google for purposes of associating each Request with a reporting channel.

4. Clause 14.4 of the GSA shall be replaced in its entirety by the following clause 14.4:

Company will ensure that at all times during the applicable Term, Company:

a) has a clearly labeled and easily accessible privacy policy in place relating to the applicable Site(s); and

b) provides End Users with clear an comprehensive information about cookies and other information stored or accessed on an End User's device, including information about End Users' options for cookie management

5. Clause 14.5 of the GSA shall be replaced in its entirety by the following clause 14.5:

Company will take reasonable steps to ensure that an End User gives consent to the storing and accessing of cookies and other information on the End User's device where such activity occurs in connection with the Services and obtaining such consent is required by law.

6. Continuation

The Agreement shall remain in full force and effect unchanged except as modified by this Amendment.

7. Governing Law and Jurisdiction

This Amendment is governed by English law and the parties submit to the exclusive jurisdiction of the English courts in relation to any dispute (contractual or non-contractual) concerning this Amendment.

Signed by the parties on the dates stated below

GOOGLE		**COMPANY**	
By:	**/s/ Ailis Daly**	**By:**	**/s/ Josef Mandelbaum /s/ Yacov Kaufman**
Name:	**Ailis Daly**	**Name:**	**Josef Mandelbaum Yacov Kaufman**
Title:	**_____**	**Title:**	**CEO CFO**
Date:	**January 31, 2013**	**Date:**	**January 31, 2013**

Exhibit 4.5

May 10th, 2012

Amendment to the Commitment Letter and the Financial Covenants dated September 6, 2011
(the "Amendment")

Whereas Bank Leumi le-Israel B.M. (the "**Bank**") issued a commitment letter dated September 6, 2011 to the Company (the "**Commitment Letter**") confirming the Bank's willingness to grant to Perion Network Ltd. (formerly IncrediMail Ltd.) (hereinafter the "**Company**") a credit framework in the a total principal amount which shall not exceed USD12,000,000 on the terms and subject to the terms and conditions set out in the Commitment Letter;

Whereas the Bank has received and/or shall receive from the Company various undertakings and guarantees in favor of the Bank as set forth in the Commitment Letter as amended by this Amendment; and

Whereas as one of the conditions for granting and/or maintaining the loans and/or credit framework set forth in the Commitment Letter and/or other banking services and the receipt of the various undertakings, the Company issued a letter of covenants and undertakings dated September 6, 2011 (the "**Financial Covenants**") in favor of the Bank; and

Whereas the Company has requested and the Bank has agreed to make certain amendments to the Commitment Letter and to the Financial Covenants, subject to the terms and conditions hereof;

NOW THEREFORE the parties hereby agree as follows:

1. The preamble hereto forms an integral part hereof;

2. The Commitment Letter shall be amended as follows:

   a. Section 5 of Schedule B of the of the Commitment Letter shall be deleted in its entirety and replaced with the following:

      "5. The period of drawing the Credit shall commence on the Date of Entering Into Force and terminate on April 30, 2012 (the "**Availability Period**"). For the avoidance of doubt, any amount of the Credit not drawn by the Company by the end of the Availability Period shall not be available for drawing.

   b. Section 6 of Schedule B of the of the Commitment Letter shall be deleted in its entirety and replaced with the following:

      "6. The repayment period of the Credit shall be 48 months from the Drawing Date."

3. The Financial Covenants shall be amended as follows:

   a. Section 1.3 of the Financial Covenants shall be deleted in its entirety, and replaced with the following:

      "1.3 The Company's EBITDA on an annual basis, shall not, at any time, be less than USD5,000,000."

b. Section 3 of the Financial Covenants shall be deleted in its entirety, and replaced with the following:

"3. Undertakings regarding current holdings and future acquisitions

3.1 We hereby agree and undertake that our wholly owned subsidiary, IncrediMail Inc. shall not pledge or charge and shall not undertake to pledge or charge, in any manner whatsoever and for any reason whatsoever, the shares of SMILEBOX Inc. held by it in favour of any third party whomsoever, without receiving the Bank's prior written consent. For the avoidance of doubt it is hereby provided that in the event that IncrediMail Inc. pledges or charges or undertakes to pledge or charge, in any manner whatsoever and for any reason whatsoever, the shares of SMILEBOX Inc. held by it in favour of any third party whomsoever, without receiving the Bank's prior written consent the Bank shall, without prejudicing of any other of the Bank's rights, be entitled but not obliged to declare our indebtedness and undertakings, in whole or in part, to be immediately due and payable in accordance with section 7 below.

3.2 In the event that the Company shall at any time acquire any corporation, we hereby undertake and agree:

3.2.1 In the case of an Israeli corporation, to grant to the Bank a first ranking fixed pledge of the shares of such corporation, unlimited in amount, which pledge shall rank pari passu to the rights of the First International Bank of Israel in such collateral, and to sign a deed of pledge in the Bank's customary form as well as such other documents as may be required by the Bank to create and/or perfect the aforementioned pledge; and

3.2.2 In the case of a foreign corporation, not to pledge or charge and not to undertake to pledge or charge, in any manner whatsoever and for any reason whatsoever, the shares of such corporation, in favour of any third party whomsoever, without receiving the Bank's prior written consent.

For the purpose of this Section the term "shares" shall include shares of the capital stock, partnership interests, membership rights and/or any other means of ownership and/or control in a corporation."

3 Except as expressly amended hereby, the provisions of the Financial Covenants are and shall remain in full force and effect.

Perion Network Ltd.

By:_____

Bank Leumi le-Israel B.M.

By:_____

Exhibit 4.6

TRANSLATION FOR CONVENIENCE ONLY

BINDING VERSION IS THE ORIGINAL HEBREW

Date: April 15, 2012

To

The First International Bank of Israel Ltd.

Ramat Hachayal Branch (the "**Bank**")

Dear Sirs,

Re: Amendment to Financial Covenants

Whereas, Perion Network Ltd. (the "**Company**"), is and/or will be indebted to the Bank for various amounts of money on account of credit, documentary credit, various loans, overdraft on the Company's checking account, debit or other account, various letter of indemnification and guaranty, discounts of bills and other banking services made available and that will be made available to the Company and/or other persons guaranteed by the Company (the "**Banking Services**"); and

Whereas, In order to secure the Banking Services, on September 6, 2011, the Company has inter alia, executed an undertaking for the compliance with financial covenants (the "**Undertaking**"); and

Whereas, the Bank and the Company have agreed to amend the Undertaking in the manner described below;

THEREFORE, it is hereby agreed by the Company as follows:

1. In Section 1.1 on the fifth paragraph which starts with the words "Intangible Assets on Account of Acquisitions", in the fourth line, in lieu of the reference to Section 7.4, it shall refer to Section 9.4.

2. In Section 1.2 of the Undertaking, in the first paragraph on the second line, in lieu of the amount specified therein "$6,000,000 USD", it shall read "$3,000,000 USD".

3. In Section 1.2 of the Undertaking, on the second paragraph in the second line, in lieu of the amount specified therein "$8,000,000 USD", it shall read "$4,000,000 USD".

4. Section 1.2 of the Undertaking, in the third paragraph on the second line, in lieu of the amount specified therein "$10,000,000 USD", it shall read "$5,000,000 USD".

5. Section 1.3 of the Undertaking, in the first paragraph, in lieu of the words “shall not exceed 3.5”, it shall read “shall not exceed 3.5 in the financial statements of the first and the second quarter of 2012, and will not exceed 3 in the financial statements of the third and the fourth quarter of 2012 and the first and the second quarter of 2013, and 2 in the financial statements of the third quarter of 2013 onwards.”

6. Section 1.4 of the Undertaking, in the first paragraph, in lieu of the amount specified therein “$8,000,000 USD”, it shall read “$4,000,000 USD”.

7. The remaining sections of the Undertaking shall not be amended and shall remain in full force and effect. Without derogating from the foregoing said, the Company acknowledges that this consent does not derogate from other undertakings of the Company towards the Bank, including any other covenant specified in the Undertaking.

Sincerely,

Perion Network Ltd.

Exhibit 4.8

PORTIONS OF THIS AGREEMENT WERE OMITTED AND HAVE BEEN FILED SEPARATELY WITH THE SECRETARY OF THE COMISSION PURSUANT TO AN APPLICATION FOR CONFIDENTIAL TREATMENT UNDER RULE 24b-2 OF THE SECURITIES EXCHANGE ACT OF 1934; [***] DENOTES OMISSIONS.

GOOGLE SEARCH AND ADVERTISING SERVICES AGREEMENT

This Google Search and Advertising Services Agreement (" **GSA**") is entered into by **Google Ireland Limited**, whose principal place of business is at Gordon House, Barrow Street, Dublin 4 ("**Google**") and Perion Network, Ltd whose registered office is at 4 Hanechoshet St., Tel Aviv, Israel (" **Company**") and is effective from 1 May 2013 ("**GSA Effective Date**").

INTRODUCTION

(A) Google and Company have agreed that Google will provide certain of its search and advertising related services to Company, as listed in one or more Order Forms.

(B) Each Order Form will form a separate (and separately terminable) agreement between Company and Google on the terms contained in the Order Form and in this GSA.

AGREED TERMS

1. **Definitions**

1.1 In this GSA and any Order Form(s):

"Ad" means an advertisement forming part of an Ad Set;

"Ad Revenues" means the AdSense Revenues and ADX Revenues;

"Ad Set" means a set of one or more advertisements provided through the applicable Advertising Services;

"Advertising Services" means the AdSense Services and/or the ADX Services (if ordered);

"AdSense Revenues" means, for any period during the Term, revenues that are recognised by Google in connection with Company's use of the applicable AdSense Service and are attributed to Ads displayed to End Users in that period in accordance with the applicable Agreement;

"AdSense Services" means the AdSense services listed on the front pages of the applicable Order Form, as updated by Google from time to time;

"AdSense Site" means, for the AdSense Services, the web site(s) located at the URL(s) and the Company Mobile Applications listed on the front pages of the applicable Order Form in the AdSense Services section, together with any additional URL(s) and additional mobile applications approved by Google from time to time in accordance with clause 6.3(a) of this GSA;

"**ADX**" means the Google Doubleclick ADX/Admeld Service, including services and technologies made available to Company through the Admeld user interface (if any) or any successor service;

"**ADX Guidelines**" means the guidelines applicable to the ADX Services, which may be found at the following URL: https://www.google.com/doubleclick/adxseller/guidelines.html;

"ADX Revenues" means for any period during the Term and for each ADX transaction type, the sum of the ADX Transaction Prices in that period. ADX Revenues do not include Client-Managed Revenues;

"ADX Services" means the ADX services listed on the front pages of the applicable Order Form, as updated by Google from time to time;

"ADX Site" means the property(ies) submitted by Company in writing to Google or through the ADX user interface, together with additional property(ies) submitted to Google from time to time under clause 6.3(a) of this GSA;

"**ADX Transaction Price**" means, in an ADX transaction, the final price for the provision of the Ad;

"**Affiliate**" means any entity that directly or indirectly controls, is controlled by, or is under common control with, a party;

"AFC" means the provision of content and/or placement targeted hyperlinked advertisements via Google's AdSense for Content Service under the applicable Agreement;

"AFS" means the provision of keyword targeted hyperlinked advertisements via Google's AdSense for Search Service under the applicable Agreement;

"**AFS for Mobile Applications Service**" means the AFS service to be provided by Google in respect of the Company Mobile Application(s);

"Agreement" means an agreement between Company and Google on the terms contained in the applicable Order Form and this GSA;

"Approved Client Application" means, for each of the Services, any application, plug-in, helper, component or other executable code that runs on a user's computer and is approved for the purpose of accessing those Services, as stated in the applicable Order Form or as otherwise agreed between the parties from time to time in writing;

"Confidential Information" means information that one party (or an Affiliate) discloses to the other party under this GSA or any Agreement, and which is marked as confidential or would normally under the circumstances be considered confidential information. It does not include information that the recipient already knew, that becomes public through no fault of the recipient, that was independently developed by the recipient, or that was lawfully given to the recipient by a third party;

"Client ID" means an alphanumeric code as provided by Google to Company from time to time to be used to identify each Request;

"**Client-Managed Accounts**" means Company's accounts with Client-Managed Buyers that are related to the ADX Service;

"**Client-Managed Buyer**" means a purchaser of advertising inventory on the Sites from whom Company is responsible for collection of payment and with whom Company has a separate contractual relationship, as indicated by Company through the ADX user interface (including, if applicable, Google acting as purchaser, for example, via an AdSense service);

"**Client-Managed Revenues**" means, for any period during the Term, the total amount payable to Company by Client-Managed Buyers for the sale of advertising inventory on the Sites, as calculated by Google from data retrieved from Client-Managed Accounts in that period;

"Company Content" means any content served to End Users that is not provided by Google;

"Company Mobile Application(s)" means the mobile application(s) listed on the front pages of the applicable Order Form in the Adsense for Search section, together with any additional mobile application(s) approved by Google from time to time in accordance with clause 6.3(a) of this GSA;

"Company Partner" means, in respect of the ADX Site(s): (i) the owner (if not Company) of those Sites (if Company is not the owner of the ADX Site(s)); (ii) the third party with which Company is co-branding the ADX Site(s); or (iii) the third party for which Company is providing the Site on a white label basis;

"Deduction Percentage" means for each of the Adsense Services, the deduction percentage set out for that Adsense Service in the Order Form;

"End Users" means individual human end users of a Site, Approved Client Application or Feed;

"Equivalent Ads" means any advertisements that are the same as or substantially similar in nature to the AFS Ads provided by Google under any Agreement.

"Feed" means any RSS, or variant, feed containing content from a Site as made available by the Company from time to time;

"**Google Brand Features**" means Google's trade names, trademarks, logos and other distinctive brand features;

"Google Branding Guidelines" means the then-current brand treatment guidelines applicable to the AdSense Services and Search Services which may be found at the following URL: http://www.google.com/wssynd/02brand.html (or such other URL Google may provide from time to time);

"Google Program Guidelines" means the policy and implementation guidelines applicable to the AdSense Services and Search Services, including any client application guidelines (where applicable), as notified to Company by Google from time to time;

"Google Technical Protocols" means the Google technical protocols and other technical requirements and specifications applicable to the Services as notified to Company by Google from time to time;

"Intellectual Property Rights" means all copyright, moral rights, patent rights, trade marks, rights in or relating to databases, rights in or relating to confidential information and any other intellectual property rights (registered or unregistered) throughout the world;

"Mobile AFC" means the provision of content and/or placement targeted hyperlinked advertisements via Google's AdSense for Mobile Content Service under the applicable Agreement;

"Net AdSense Revenues" means **[***]**

"Order Form" means a fully executed Google order form which incorporates this GSA;

"Request" means a request from Company or an End User to Google for a Search Results Set and/or an Ad Set (as applicable);

"Results" means Search Results Sets, Search Results, Ad Sets and/or Ads;

"Results Page" means any Site page, or page forming the content in a Feed, which contains any Results;

"**Search Box**" means a search box or other means approved by Google for the purpose of sending search queries to Google as part of a Request;

"**Search Query**" means a search query submitted directly on the Site or through any Approved Client Application by an End User by way of a Search Box;

"Search Result" means a search result forming part of a Search Results Set;

"Search Results Set" means a set of one or more search results provided through the applicable Search Services;

"Search Services" means the search services listed on the front pages of the applicable Order Form;

"Search Site" means, for the Search Services, the web site(s) located at the URL(s) listed on the front pages of the applicable Order Form in the Search Services section, together with any additional URL(s) approved by Google from time to time in accordance with clause 6.3(a) of this GSA;

"Services" means the Advertising Services and/or Search Services (as applicable);

"Site" means, the Search Site(s), the AdSense Site(s) and/or the ADX Site(s), as applicable;

"Term" means the term as stated in the applicable Order Form;

"Valid Request" means **[***]**

"Year" means, during the Term (as applicable): (a) a period of 12 months commencing on the Order Form Effective Date; or (b) any subsequent 12 month period thereafter, each commencing on the anniversary of the Order Form Effective Date; and

"Year One" means the first period of 12 months starting from the Order Form Effective Date.

1.2 The words "**include**" and "**including**" will not limit the generality of any words preceding them.

2. **Implementation Requirements**

2.1 ***Launch of the AdSense Services and Search Services***

(a) The parties will each use their reasonable endeavours to launch the AdSense Services and Search Services into live use within **[***]** from the effective date of the applicable Order Form.

(b) Company will not put its implementation of the AdSense Services and Search Services for a Site into live use (or any amended implementation pursuant to clause 6.2a or b) until Google has notified Company that the implementation for that Site is approved (this approval not to be unreasonably withheld or delayed).

2.2 ***Implementation***

(a) Implementation of Services on a Site, Approved Client Application or through a Feed is conditional on Company or, in the case of ADX Services, on Company or Company Partner:

(i) being the technical and editorial decision maker in relation to each page, including Results Pages, on which the Services are implemented; and

(ii) having control over the way in which the Services are implemented on each of those pages.

(b) Company will ensure that the AdSense Services and Search Services are implemented and maintained in accordance with:

(i) the applicable Google Technical Protocols;

(ii) the applicable Google Branding Guidelines;

(iii) the applicable Google Program Guidelines; and

(iv) the mock ups and specifications for such AdSense Services and Search Services set out in the exhibits to the applicable Order Form, unless otherwise approved by Google or permitted in accordance with clause 6.2(a), (b) or (c).

If there is any conflict between: (a) the items listed in 2.2(b)(i), (ii) and (iii); and (b) the mock ups and specifications referred to in 2.2(b)(iv), then the items listed in 2.2(b)(i), (ii) and (iii) shall take precedence over 2.2(b)(iv), and Company shall make all changes requested by Google in respect of the implementation of the AdSense Services and Search Services to resolve such conflict.

(c) Company will ensure that the ADX Services are implemented and maintained in accordance with:

(i) the applicable Google Technical Protocols; and

(ii) the ADX Guidelines.

(d) Company shall ensure that the Company Mobile Application adheres to the Google Software Principles (available at http://www.google.com/about/company/software-principles.html or such other URL as may be provided from time to time).

2.3 ***Requests***

(a) Google will:

(i) for each Valid Request received by it, where available provide a Search Results Set or an Ad Set (as applicable); and

(ii) within **[***]** of the end of each month during the Term, make available to Company Search Services and/or Advertising Services revenue and usage reports (as applicable) in such form and manner as Google generally makes such reports available at that time.

(b) Company will:

(i) ensure that every Search Query generates a Request containing that Search Query;

(ii) ensure that all Requests are sent to Google without editing, modifying or filtering the Requests or any Search Queries contained in the Requests individually or in the aggregate;

(iii) display the Search Results Sets and/or Ad Sets (as applicable) on the applicable Site or as part of the applicable Feed; and

(iv) ensure that the Services are not implemented on any property other than a Site.

(c) In clauses 2.3 (d) and (e):

"**Gambling Ad Enabled Countries"** means the set of countries for which Google's AdWords program will accept Gambling Ads. As at insert date of amendment this set consists of **[***]** but this may be modified by Google at any time without notification in accordance with Google's advertising policies; and

"**Gambling Ads**" means Ads which contain (and/or link to websites which contain) material which promotes or otherwise relates to gambling and gambling products and services, as defined by Google in its advertising policies.

(d) Notwithstanding anything in any Agreement, if the end user IP address or other geographic location or geographic region codes sent by Company to Google in relation to any Request for AFS Ads indicates that the request comes from any of the Gambling Ad Enabled Countries, in response to that request Google may provide to Company (as part of AFS) Gambling Ads. Company: (i) warrants that its AFS Sites are not targeted at individuals under 18 years old; (ii) agrees to comply with all applicable laws in its display of Gambling Ads on its Sites; and (iii) acknowledges that Google is under no obligation to provide Gambling Ads and may cease providing them at any time.

(e) Company shall indemnify Google against any loss, liability, cost or expense suffered or incurred by Google and arising out of:

(i) any claim by any third party (including any regulator or law enforcement agency): (i) that the AFS Site specified in the Agreement (or any page of or content on such Site) is targeted at individuals under 18 years old; (ii) that Gambling Ads were displayed on the Sites in violation of applicable laws; or (iii) arising from Company's failure to display any Gambling Ads on the correct Site or page; and

(ii) any error or inaccuracy in, modification to or encryption of the End User IP address or other geographic location or geographic region codes sent by Company to Google in relation to any request for an AFS Ad Set which results in a Gambling Ad(s) being displayed to End Users in a territory outside of the Gambling Ad Enabled Countries,

and Company agrees that nothing in this GSA or any Agreement (including without limitation clause 13 of the GSA) shall exclude or limit Company's liability under the indemnities set out above.

2.4 **ADX Services**

(a) Any services and technologies made available to Company through the Admeld user interface are provided at Google's sole discretion and are subject to cancellation with notice.

(b) In each case solely for the purpose of providing ADX, Company authorises Google to access, manage, retrieve data from, and analyse data from:

(i) Client-Managed Accounts (including by automated means); and

(ii) Company's ADX account,

and Company represents and warrants that it has all necessary rights and consents to authorise Google's access as contemplated by this clause 2.4(b).

3. **Support Services**

For each Agreement, Google will provide technical support services to Company during the applicable Term in accordance with Google's technical support guidelines as notified to Company by Google from time to time. Google will not provide any technical support services in relation to any features which are identified by Google as "Beta" or unsupported in Google's technical documentation from time to time.

4. **Policy and Compliance Obligations**

4.1 Company will not, and will not knowingly or negligently allow any third party to:

(a) modify, obscure or prevent the display of all, or any part of, any Results;

(b) edit, filter, truncate, append terms to or otherwise modify any Search Query;

(c) implement any click tracking or other monitoring of Results;

(d) display any Results in pop-ups, pop-unders, exit windows, expanding buttons, animation or other similar methods;

(e) interfere with the display of or frame any Results Page or any page accessed by clicking on any Results;

(f) display any content between any Results and any page accessed by clicking on those Results or place any content immediately before any Results Page containing any Search Results;

(g) enter into any type of co-branding, white labeling or sub-syndication arrangement with any third party in connection with any Results or Ad revenue (including any arrangement under which a third party pays to or receives from Company any fees, revenue share or other amounts in return for the display of Results), except that Company may enter into an arrangement with a Company Partner in accordance with the relevant Agreement where the ADX Services are implemented on the ADX Site(s) of that Company Partner;

(h) directly or indirectly: (i) offer incentives to End Users to generate impressions, Requests or clicks on Results; (ii) fraudulently generate impressions, Requests or clicks on Results; or (iii) modify impressions, Requests or clicks on Results;

(i) "crawl", "spider", index or in any non-transitory manner store or cache information obtained from the Services (including any Results);

(j) display on any Site, Approved Client Application or Feed, any content that violates or encourages conduct that would violate any applicable laws, any third party rights, the Google Program Guidelines or Google Technical Protocols applicable to the AdSense Services or Search Services, or the ADX Guidelines applicable to the ADX Services, as notified to Company by Google from time to time;

(k) send Requests to Google which are not Valid Requests; or

(l) provide End Users with access (directly or indirectly) to any Results or Services using any application, plug-in, helper, component or other executable code that runs on a user's computer, other than an Approved Client Application.

4.2 Google may generate a reasonable number of Requests or make a reasonable number of uncompensated clicks on any Results at any time to check that that the Services continue to be implemented in accordance with the applicable Agreement and are functioning well.

5. **Compliance**

5.1 Company will not knowingly or negligently allow any use of or access to the Services through any Site, Approved Client Application or Feed which is not in compliance with the terms of the applicable Agreement or not otherwise approved by Google. Company will use its reasonable endeavours to monitor for any such access or use and will, if any such access or use is detected, take all reasonable steps requested by Google to disable this access or use. Notwithstanding clause 15.2, if Company is not in compliance with this GSA or any Agreement at any time, Google may, with written notice to Company, suspend provision of all (or any part of) the applicable Services until Company implements adequate corrective modifications as reasonably required and determined by Google. Google shall use reasonable endeavours to hold a meeting with Company (including by way of telephone and/or video conference) to explain the reason for any suspension of the Services (or any part of them) before such suspension is put into effect.

5.2 Company will procure that Company Partner uses, or accesses the ADX Services, including Results, in accordance with this GSA and any Agreement, as if Company's obligations in this GSA and any Agreement were obligations on Company Partner. Company will not provide Company Partner with access to the ADX user interface. Company accepts full liability for the actions and/or inactions of the Company Partner as if such actions and/or inactions were Company's own.

6. **Changes and Modifications**

6.1 ***By Google***

If Google modifies any Google Branding Guidelines, Google Program Guidelines, Google Technical Protocols or ADX Guidelines and the modification requires action by Company then, subject to clause 6.2(e), Company will complete the necessary action no later than **[***]** from receipt of notice from Google of the modification.

6.2 ***By Company***

(a) Unless approved in writing in advance by Google, Company will not make any changes in relation to:

(i) the display or implementation of the Search Box, including changes to the format, size or placement of the Search Box;

(ii) the display of Search Results Sets, Search Results, AFC Ad Sets or AFC Ads on a Results Page, including changes to their number, colour, font, size or placement or the extent to which they are clickable; or

(iii) the use of any Google Brand Features or other attribution or similar wording.

(b) If Company wishes to make changes in relation to the display of:

(i) AFS Ad Sets or AFS Ads on a Results Page, including changes to their number, colour, font, size or placement or the extent to which they are clickable, Company will not make any changes unless approved in writing in advance by Google. Google may only withhold its approval on grounds that the proposed change would be in breach of the applicable Agreement or the Google Branding Guidelines and Google may not withhold its approval on purely commercial grounds. Google shall at all times permit Company to display Equivalent Ads on a Results Page; or

(ii) Equivalent Ads on a Results Page, including changes to their number, colour, font, size or placement or the extent to which they are clickable, Company will not make any changes unless approved in writing in advance by Google. Google may not withhold its approval unless such proposed change would be in breach of the applicable Agreement or the Google Branding Guidelines and Google may not withhold its approval on purely commercial grounds. If Google does not respond to any request for approval set out in this clause 6.2(b)(ii) **[***]** of receipt from Company, such approval shall be deemed given by Google.

Notwithstanding the foregoing, Company shall at all times comply with the requirements of clause 7.2(b).

(c) Subject to clauses 6.2(a) and (b), Company may update the design and content of any Site, Approved Client Application or Feed in a manner consistent with its obligations under this Agreement.

(d) Company will provide Google with at least **[***]** advance notice of any change in code or serving technology that could reasonably be expected to affect use of the Services.

(e) If a fault in Company's implementation of the Services (or any of them) could cause or is causing an interruption or degradation of the Services (or any of them), Company will make the required fixes or changes as soon as reasonably possible.

6.3 **Site List Changes**

(a) Company may notify Google from time to time that it wishes to add additional URLs and mobile applications to those comprising the AdSense Site(s) or Search Site(s), such notification to be sent to Google at least **[***]** (or such shorter period as Google may agree) before Company wishes the addition to take effect. Google may approve or disapprove the request at its reasonable discretion, this approval or disapproval to be in writing.

(b) Company may notify Google from time to time that it wishes to add or remove property(ies) to those comprising the ADX Site(s) by either sending notice to Google or adding or removing the property(ies) through the ADX user interface.

(c) If there is any change in control of any Site or Feed (such that the conditions set out in clause 2.2 (a) are not met):

(i) Company will notify Google at least **[***]** in advance of the change;

(ii) unless the entire applicable Agreement is assigned to a third party in accordance with clause 16.3, from the date of such change that Site or Feed will be treated as removed from the applicable Order Form and Company will ensure that from that date the Services are no longer implemented on that Site or through the applicable Feed(s).

7. **Similar Services**

WebSearch Services, AdSense for Content and Mobile AFC

7.1 **[***]**

(a) **[***]**

(b) **[***]**

AdSense for Search

7.2 The parties agree that:

(a) **[***]** and

(b) **[***]**

General

7.3 **[***]**

8. **Intellectual Property Rights**

Except to the extent expressly stated otherwise in this GSA or any Agreement, neither party will acquire any right, title, or interest in any Intellectual Property Rights belonging to the other party, or the other party's licensors.

9. **Trade mark licence**

9.1 Google grants to Company a non-exclusive and non-sublicensable licence during the Term to use the Google Brand Features solely to fulfil Company's obligations under the applicable Agreement in accordance with its terms and subject to compliance with the Google Branding Guidelines in respect of the AdSense Services and/or Search Services.

9.2 All goodwill arising from the use by Company of the Google Brand Features will belong to Google.

9.3 Google may revoke the licence granted under clause 9.1 above at any time on reasonable written notice.

10. **Payment**

10.1 ***Company Payments***

(a) **[***]**

(b) **[***]**

(c) **[***]**

10.2 ***Google Payments***

(a) **[***]**

(b) **[***]**

(c) **[***]**

10.3 ***All Payments***

(a) **[***]**

(b) In respect of the Search Services and the AdSense Services, all payments due to Google or to Company will be in the currency specified in the applicable Order Form and made by electronic transfer to the account notified to the paying party by the other party for that purpose. In respect of the ADX Services, all payments to Company will be in the form of payment and currency selected by Company from the options provided by Google. In all cases, the party receiving payment will be responsible for any bank charges assessed by the recipient's bank.

(c) Google will, unless it has notified Company otherwise, set off the fees payable by Company for Search Services and ADX Services under an Agreement against Google's payment obligations to Company under that Agreement.

(d) If Google recognises any ad revenues in error or otherwise overpays Company for any reason, Google will, unless it has notified Company otherwise, set off the overpaid amounts against Google's payment obligations to Company under the Agreement to which the overpaid amounts related or require Company to pay to Google within [***] of an invoice, any such overpaid amounts.

(e) Google or Company (as applicable) may charge interest at the rate of 2% per annum above the base rate of Barclays Bank PLC from time to time, from the due date until the date of actual payment, whether before or after judgment: (i) in the case of Google, on any fee for Search Services which is overdue; and (ii) in the case of Company, on any payments to be made by Google to Company in relation to Advertising Services which are overdue, unless such payments have been set off.

11. **Warranties**

11.1 Each party warrants to the other that it will use reasonable care and skill in complying with its obligations under this GSA and any Agreement(s).

11.2 No conditions, warranties or other terms apply to any Services or to any other goods or services supplied by Google under this GSA or any Agreement unless expressly set out in this GSA or the applicable Agreement. Subject to clause 13.1(b), no implied conditions, warranties or other terms apply (including any implied terms as to satisfactory quality, fitness for purpose or conformance with description).

12. **Indemnities**

12.1 If either:

(a) Company receives a claim from a third party that either Google's or any Google Affiliate's technology used to provide the Services or, where Company has ordered the Search Services and/or AdSense Services, any Google Brand Feature infringe(s) any Intellectual Property Rights of that third party; or

(b) Google receives a claim: (i) from a third party that the Company Content, Site and/or Approved Client Application (if any) infringe(s) any Intellectual Property Rights of that third party; (ii) from a third party relating to any use of, or access to, the ADX Services by any Company Partner; or (iii) from any Company Partner relating to the implementation or display of Ads on the Company Partner's Site(s),

(in each case, an "**IP Claim**") then the party which received such IP Claim (the "**Recipient**") will:

(i) promptly notify the other party;

(ii) provide the other party with reasonable information, assistance and cooperation in responding to and, where applicable, defending such IP Claim; and

(iii) give the other party full control and sole authority over the defence and settlement of such IP Claim. The Recipient may appoint its own supervising counsel of its choice at its own expense.

12.2 Provided the Recipient complies with clause 12.1(i) to (iii) and subject (if applicable) to clause 12.3, the party notified in accordance with clause 12.1(i) (the "**Indemnifying Party**") will accept full control and sole authority over the defence and settlement of such IP Claim and will indemnify the Recipient against all damages and costs awarded for such IP Claim, settlement costs approved in writing by the Indemnifying Party in relation to such IP Claim, reasonable legal fees necessarily incurred by the Recipient in relation to such IP Claim and reasonable costs necessarily incurred by the Recipient in complying with clause 12.1(i) to (iii).

12.3 Google will not have any obligations or liability under this clause 12 in relation to any IP Claim arising from any:

(a) use of the Services or Google Brand Features in a modified form or in combination with materials not furnished by Google;

(b) **[***]**

(c) **[***]**

(d) acts or omissions by Company Partner.

12.4 Company will not have any obligations or liability under this clause 12 in relation to any IP Claim arising from content, information or data provided to Company by Google save where Company's use of such content, information or data is in breach of the terms and conditions of this GSA or any Agreement.

12.5 Google may (at its sole discretion) suspend Company's use of any Services or Google Brand Features which are alleged, or believed by Google, to infringe any third party's Intellectual Property Rights, or to modify such Services or Google Brand Features to make them non-infringing. If any suspension of Services under this clause continues for more than 30 days, Company may, at any time until use of the applicable Services is reinstated, terminate the applicable Agreement immediately upon written notice.

12.6 This clause 12 states the parties' entire liability and exclusive remedy with respect to infringement of a third party's Intellectual Property Rights.

13. **Limitation of Liability**

13.1 **[***]**

(a) **[***]**

(b) **[***]**

(c) **[***]**

13.2 **[***]**

13.3 **[***]**

13.4 **[***]**

(a) **[***]**

(i) **[***]**

(ii) **[***]**

(iii) **[***]**

(b) **[***]**

[***]

[***]

[***]

[***]

[***]

14. **Confidentiality**

14.1 The recipient will not disclose the Confidential Information, except to Affiliates, employees, agents or professional advisors who need to know it and who have agreed in writing (or in the case of professional advisors are otherwise bound) to keep it confidential. The recipient will ensure that those people and entities use the received Confidential Information only to exercise rights and fulfil obligations under this GSA or any Agreement, while using reasonable care to keep it confidential. The recipient may also disclose Confidential Information when required by law after giving reasonable notice to the discloser, such notice to be sufficient to give the discloser the opportunity to seek confidential treatment, a protective order or similar remedies or relief prior to disclosure.

14.2 Notwithstanding clause 14.1 above, and except, in respect of ADX Services, as specified by Company's anonymity preferences selected in the ADX user interface, Google may: (i) share Site-specific statistics, the Site URL(s), and related information collected by Google through its provision of the Advertising Services to Company with advertisers or potential advertisers; (ii) share know how gained by Google through its provision of the Services to Company (including sharing information illustrating this know how presented in an anonymised or aggregated form) with third parties. In either case, this sharing of information will not include any sharing of personally identifiable information.

14.3 Notwithstanding clause 14.1 above, Company may disclose to Company Partner, or to any other third party, the ADX reports provided by Google to Company. Company shall not disclose to any Company Partners, or any other third party, the Percentage of ADX Revenues payable to Company, or any information that could allow such Company Partners or third party to calculate the Percentage of ADX Revenues payable to Company.

14.4 Company will ensure that at all times during the applicable Term, Company and, in the case of ADX Services, Company and Company Partner:

(a) has a clearly labelled and easily accessible privacy policy in place relating to the applicable Site(s); and

(b) provides End Users with clear and comprehensive information about cookies and other information stored or accessed on an End User's device, including information about End Users' options for cookie management.

14.5 Company will take reasonable steps to ensure that an End User gives consent to the storing and accessing of cookies and other information on the End User's device where such activity occurs in connection with the Services and obtaining such consent is required by law.

14.6 Google hereby acknowledges that Company is a publicly traded company, and as such is obliged to comply with certain disclosure rules, including the obligation to disclose the existence of this Agreement and its material terms and conditions to the U.S Securities and Exchange Commission (the "**Authority**"). Company shall work with Google to agree which terms of this Agreement should be treated as confidential ("**Confidential Terms**") and Company shall use best endeavors to ensure that such Confidential Terms are granted confidential treatment by the Authority. Providing that Company has used best endeavours to ensure that the Confidential Terms are granted confidential treatment by the Authority, Company shall not be held liable under this Agreement in the event that Confidential Terms are eventually required by the Authority to be publicly disclosed.

14.7 Where Company has ordered Mobile AFC, Google shall have the right to use, publish and display Company's logo, name and Mobile AFC Site(s) content/screenshots in Google's sales and marketing materials and on any of Google's websites (including www.admob.com). Otherwise, subject to clause 14.6, neither party will issue any press release regarding this GSA or any Agreement without the other's prior written approval.

14.8 If Company wishes to collect or disclose location-based information through the Company Mobile Application, Company will obtain all legally required and valid consents from End Users and provide all legally required disclosures in Company's privacy policy in accordance with applicable law.

15. **Term and Termination**

15.1 This GSA will commence on the GSA Effective Date and remain in force until it terminates or expires in accordance with its terms. Each Agreement shall (unless earlier terminated in accordance with its terms) remain in force for the Term, at the end of which it shall expire automatically.

15.2 Without prejudice to clause 5.1, a party may suspend performance under any Agreement (in whole or in respect of a page of a Site, a Site or Sites) and/or terminate any Agreement (in whole) or remove a page of a Site, a Site or Sites from any Agreement with immediate effect, if the other party:

(a) is in material breach of the Agreement where the breach is incapable of remedy;

(b) is in material breach of the Agreement where the breach is capable of remedy and fails to remedy that breach within 30 days after receiving written notice of such breach; or

(c) is in material breach of the Agreement more than twice even if the previous breaches were remedied,

provided (in each case) that any such suspension or removal of a page(s) or Site(s) may only take effect in relation to the page(s) or Site(s) on (or in respect of which) the relevant breach has occurred.

15.3 A party may suspend performance and/or terminate this GSA (and all Agreements) with immediate effect, if:

(a) the other party enters into an arrangement or composition with or for the benefit of its creditors, goes into administration, receivership or administrative receivership, is declared bankrupt or insolvent or is dissolved or otherwise ceases to carry on business; or

(b) any analogous event happens to the other party in any jurisdiction in which it is incorporated or resident or in which it carries on business or has assets.

15.4 **[***]**

15.5 Google has the right (in its sole discretion) with **[***]** notice to Company to remove or require Company to remove the AFC Services from any Site (or part of a Site) on which the AFC RPM falls below **[***]** for the previous calendar month. For the purposes of this clause 15.5, "**AFC RPM**" means AFC AdSense Revenues per one thousand AFC Requests.

15.6 Google may terminate any Agreement on at least **[***]** written notice to Company if at any time the average total amount of Ad Revenues (in respect of all Advertising Services provided under the relevant Order Form) calculated across any three consecutive months is less than or equal to **[***]** per calendar month.

15.7 Google may terminate any Agreement immediately by providing written notice to Company if pornographic content that is illegal under United States laws is displayed on any Site.

15.8 The parties acknowledge that following any removal of the AFC Services from any Site or termination of an Agreement pursuant to clause 15.5 or 15.6, Company may continue to receive the applicable Google advertising services in relation to the relevant Site (or part of a Site) by entering into an online agreement with Google in respect of such services and Site.

15.9 Upon the expiration or termination of this GSA for any reason:

(a) all rights and licences granted by each party will cease immediately; and

(b) if requested, each party will use its reasonable endeavours to promptly return to the other party, or destroy and certify the destruction of, all Confidential Information disclosed to it by the other party.

15.10 The termination or expiration of an individual Agreement will not have the effect of terminating any other Agreement or this GSA unless expressly agreed to by the parties in writing. If an Agreement (but not this GSA) terminates or expires, all rights and licences granted by Google to Company under that Agreement will cease immediately. Termination or expiration of all Agreements will result in the expiration of this GSA on the same date on which the last Agreement terminates or expires.

16. **General**

16.1 All notices of termination or breach must be in writing and addressed to the other party's Legal Department. The email address for notices being sent to Google's Legal Department is legal-notices@google.com. Notice will be treated as given on receipt, as verified by written or automated receipt or by electronic log (as applicable). All other notices must be in English, in writing and addressed to the other party's primary contact and sent to their then current postal address or email address.

16.2 Neither party may assign any of its rights or obligations under this GSA or any Agreement without the prior written consent of the other. Where a party gives the other party such written consent: (a) the assignor shall ensure that the assignee has agreed in writing to be bound by the terms of this GSA and the applicable Agreement(s); and (b) the assignment takes effect from 23:59 on the last day of the relevant calendar month.

16.3 **[***]**

16.4 Neither this GSA nor any Agreement confers any benefits on any third party unless it expressly states that it does.

16.5 Neither this GSA nor any Agreement will create an agency, partnership or joint venture between the parties.

16.6 Neither party will be liable for failure to perform or delay in performance to the extent caused by circumstances beyond its reasonable control.

16.7 **[***]**

16.8 Neither party will be treated as having waived any rights by not exercising (or delaying the exercise of) any rights under this GSA or any Agreement.

16.9 If any term (or part of a term) of this GSA or any Agreement is invalid, illegal or unenforceable, the rest of this GSA or that Agreement (as applicable) will continue in force unaffected.

16.10 Subject to clause 13.1(b), this GSA and the Order Forms entered into under it set out all terms agreed between the parties and supersedes all previous or contemporaneous agreements between the parties relating to its subject matter. In entering into this GSA and the related Order Forms neither party has relied on, and neither party will have any right or remedy based on, any statement, representation or warranty (whether made negligently or innocently), except those expressly set out in this Agreement.

16.11 This GSA and any Agreements and any dispute (contractual or non-contractual) concerning this GSA and any Agreement(s) or their subject matter or formation (a "**Dispute**") are governed by English law.

16.12 Any Dispute shall be referred to and finally resolved by arbitration under the rules of the LCIA, which rules are deemed to be incorporated by reference into this clause. The number of arbitrators shall be three. The seat, or legal place, of arbitration shall be London, England. The language to be used in the arbitration shall be English.

16.13 Clause 16.12 shall be without prejudice to the right of either party to apply to any court of competent jurisdiction for emergency, interim or injunctive relief (together "**Interim Relief**"). Except where Company has its registered office or principal place of business in Russia or Ukraine, such Interim Relief shall be subject to review and subsequent adjudication by the arbitral tribunal such that any dispute in respect of Interim Relief shall be determined by the arbitral tribunal.

Signed by the parties on the dates shown below.

Google	**Company**
By: /s/ Ailis Daly for Graham Law (Board Director)	By: /s/ Josef Mandelbaum, Yacov Kaufman
Print Name: /s/ Ailis Daly for Graham Law (Board Director)	Print Name: Josef Mandelbaum, Yacov Kaufman
Title: Director	Title: CEO, CFO
Date: April 23, 2013	Date: April 23, 2013

PORTIONS OF THIS ORDER FORM WERE OMITTED AND HAVE BEEN FILED SEPARATELY WITH THE SECRETARY OF THE COMISSION PURSUANT TO AN APPLICATION FOR CONFIDENTIAL TREATMENT UNDER RULE 24b-2 OF THE SECURITIES EXCHANGE ACT OF 1934; [***] DENOTES OMISSIONS.

Google Ireland Limited
Gordon House
Barrow Street
Dublin 4
Ireland

Google Search and Advertising Services Agreement
ORDER FORM

COMPANY: Perion Network, Ltd			**GSA Effective Date: 1 May 2013**
	commercial contact	**legal notices**	**technical contact**
name:	Ronit Blayer	Limor Gershoni-Levy	Daniel Katz
title:	VP of Monetization	General Counsel	Product Manager
address, city, area, postal code, country:	4 Hanechoshet St. Tel Aviv, Israel, 69710	4 Hanechoshet St. Tel Aviv, Israel, 69710	4 Hanechoshet St. Tel Aviv, Israel, 69710
phone:	03-7696224	03-7696121	03-7696243
fax:	036445501	036445502	036445501
email:	ronitb@perion.com	limorg@perion.com	danielk@perion.com
VAT ID number:	512849498	512849498	512849498
Order Form Effective Date: 1 May 2013		**Term:** from the Order Form Effective Date to 30 April 2015 (inclusive)	

SEARCH SERVICES	
WEB SEARCH SERVICES ("WS")	**search fees (for all Search Queries transmitted to Google for the purpose of obtaining Search Results)**
[***]	[***] [***] [***] [***] [***]

ADSENSE SERVICES		
ADSENSE FOR SEARCH ("AFS")	**Percentage (%) of Net AdSense Revenues for AFS payable to Company**	**AFS Deduction Percentage**
[***]	[***]	[***]

Payment Information Details
currency: ☒ US dollars

GSA Order Form Terms and Conditions

"GSA" means the Google Search and Advertising Services Agreement entered into between Google Ireland Limited ("Google") and Company with the GSA Effective Date stated on the front sheet of this Order Form.

This is an Order Form pursuant to the GSA. If there is any conflict between this Order Form and the GSA then this Order Form will, except as set out in clause 2.2(b) of the GSA, take precedence in relation to the Services to be supplied under this Order Form.

This Order Form shall commence on the Order Form Effective Date and shall continue for the period of the Term stated on the front sheet of this Order Form, unless terminated earlier in accordance with its terms.

Special Terms and Conditions

1. **Definitions**

   For the purposes of this Order Form:

   "**Channel ID**" means a unique alphanumeric code provided to and used by Company as specified by Google for purposes of identifying Ad Sets, pages or inventory within the Site(s).

   [***]

2. **Blocklist**

   Google shall use its reasonable endeavours to block Ads containing those URLs as agreed between the parties from time to time.

3. **Additional termination rights**

   a. **[***]**

   b. **[***]**

      i. ; or **[***]**

      ii. **[***]**

      in each case, as reasonably determined by Google.

4. **Google Brand Features**

   Company may use the Google Brand Features only on the search.incredimail.com, search.incredibar.com and search.smilebox.com Sites. Such use shall be in accordance with clause 9 of the GSA and Exhibits B and/or D. Google may immediately revoke the licence granted under clause 9.1 of the GSA in the event of a breach by the Company of this Agreement (including the Guidelines, as defined in clause 5(b) below).

5. **Client Applications**

   a. Subject to the Company's compliance with clauses 5(b) to 5(d) below, each client application set forth in the cover page(s) of this Order Form is an Approved Client Application for the purposes of (i) sending Requests to Google in connection with the Search Services which resolve to Results Pages on the Web Search Site(s); and (ii) sending Requests to Google for the purposes of generating Ad Sets to be displayed on the Site(s).

   b. **[***]**

   c. **[***]**

6. **Company Suggested Searches using Company Provided Keywords** [***]

   a. The definition of "**Search Query**" in the GSA shall be amended as follows:

      [***]

b. **Company Provided Keywords**

i. Subject to the remainder of this clause 6(b), Company may implement on the Site certain text links consisting of suggested keywords which are provided by Company or a third party (subject to Company obtaining Google's prior written approval of such third party, such approval not to be unreasonably withheld or delayed) and which generate Requests when clicked on by End Users ("**Company Provided Keywords**"). If Company wishes to use Company Provided Keywords that are provided by a third party it shall send a written request to Google (each a "**Third Party Notice**") and Google shall provide Company with a written reply, either approving or rejecting the Third Party Notice, within fifteen days of Google's receipt of such Third Party Notice. In the event that Google does not send a reply to a Third Party Notice within fifteen days of Google's receipt of such Third Party Notice then Google shall be deemed to have given its approval to the Third Party Notice but Customer shall still be required to comply with all other provisions of this clause 6(b) (including, but not limited to, clause 6(b)(ix)).

ii. Company shall ensure that all clicks by End Users on Company Provided Keywords generate Valid Requests: (i) which contain all of the relevant Company Provided Keyword(s) as presented to and clicked by the End User; and (ii) which are transmitted to Google in the manner specified by Google from time to time, without editing, filtering, truncating, appending terms to or otherwise modifying such Requests, either individually or in the aggregate.

iii. Company may select the Company Provided Keywords using an automated or algorithmic mechanism which shall be subject to Google's approval (such approval not to be unreasonably withheld or delayed). If Company wishes to select Company Provided Keywords using an automated or algorithmic mechanism it shall send a written request to Google (each an "**Automated Notice**") and Google shall provide Company with a written reply, either approving or rejecting the Automated Notice, within fifteen days of Google's receipt of such Automated Notice. In the event that Google does not send a reply to an Automated Notice within fifteen days of Google's receipt of such Automated Notice then Google shall be deemed to have given its approval to the Automated Notice but Company shall still be required to comply with all other provisions of this clause 6 (including, but not limited to, clause 6(b)(ix)).

iv. Company shall ensure that that Company Provided Keywords:

1. are determined by objective measures (rather than commercial criteria) such as search query frequencies and relevancies, and are not selected manually or in such a way as to be commercially biased to favour Search Queries that result in Ads with high cost per click or otherwise;

2. do not include any Google Brand Features;

3. do not contain or refer to any pornographic, hate-related or violent content or contain or refer to any other material, products or services that violate or encourage conduct that would violate any criminal laws, any other applicable laws, or any third party rights;

4. if Company Provided Keywords are related keywords, such keywords are relevant to the Request which generated the Results Page containing Search Results on which such Company Provided Keywords are displayed;

5. if Company Provided Keywords are popular keywords, then such keywords are derived from previous End User searches and arranged by popularity;

6. if Company Provided Keywords are suggested keywords, then such keywords are relevant to the current text entered into the Search Box by the End User.

v. Google may from time to time require that particular words or terms are not used as Company Provided Keywords.

vi. Google may prohibit the sending of Requests by Company using Company Provided Keywords or may refuse to serve Ads in response to Requests generated via Company Provided Keywords, if Google in its sole discretion determines that such feature or implementation is detrimental to Google and/or Google's advertiser(s).

vii. Company will use and assign Client IDs and/or Channel IDs in relation to Company Provided Keywords as instructed by Google at all times, and will provide such information to Google as Google may reasonably request with respect to the use and application of any such Client IDs and/or Channel IDs.

viii. Company shall ensure that the implementation of such functionality is in accordance with the mock ups in Exhibit C and that Company Provided Keywords are clearly labelled with the designation approved, or notified, by Google to Company from time to time.

ix. Company may only put its implementation of Company Provided Keywords into live use once Google's technical and account management personnel are satisfied that Company has properly implemented Company Provided Keywords on the Site in accordance with Google's technical and branding requirements and otherwise in accordance with the Agreement and Google has approved the Company's implementation (such approval not to be unreasonably withheld or delayed).

x. Google will not have any obligations or liability under clause 12 (Indemnities) of the GSA arising from or in connection with any Company Provided Keywords. Company shall indemnify Google against all liabilities, costs, expenses, losses and damages suffered or incurred by Google or any Google Affiliate as a result of any third party claim in connection with, arising from or related to the use of Company Provided Keywords and/or the implementation of that feature on any Site. In order for the indemnity given in this clause to apply in relation to a particular claim, Google will: (i) notify Company of such claim; and (ii) provide Company with reasonable information, assistance and co-operation in defending the claim; and (iii) give Company full control and sole authority over the defence and settlement of such claim, subject to Google's approval of any such settlement, which approval will not be unreasonably withheld or delayed. Nothing in the GSA or any Order Form will exclude or limit Company's liability under this clause 6(b)(x).

c. **[***]**

i. **[***]**

ii. **[***]**

iii. **[***]**

1. **[***]**

2. **[***]**

3. **[***]**

iv. **[***]**

v. **[***]**

vi. **[***]**

1. **[***]**

2. **[***]**

3. **[***]**

vii. **[***]**

viii. **[***]**

ix. **[***]**

7. Search History

a. Company shall be permitted to implement on the Site text links provided by Company that consist of an End User's previous Search Queries and which generate Requests when clicked on by End Users ("**Search History**") with Google's prior written approval (including by email), such approval not to be unreasonably withheld or delayed. Google may require Company to provide mock-ups of the Site incorporating Search History before giving such approval.

b. Subject to clause 7(a), Company shall not make Search History available to an End User unless it:

i. has provided the End User with sufficient information to allow End User to make an informed choice as to whether or not to enable Search History;

ii. has obtained the End User's prior opt-in consent to enable this feature; and

iii. provides the End-User with the option, at all times, to disable Search History and delete his or her Search History.

c. Subject to clauses 7(a) and 7(b), Company shall only provide an End User's Search History to the End User that performed the searches and shall not provide such Search History to any other third party.

d. Subject to clauses 7(a), 7(b) and 7(c), if Company implements Search History on the Site it shall ensure that no Requests contain any End User personal data. For the purposes of this clause 4.4 "personal data" means any information relating to an identified or identifiable natural person; an identifiable person is one who can be identified, directly or indirectly, in particular by reference to an identification number or to one or more factors specific to his physical, physiological, mental, economic, cultural or social identity.

e. Company may only put its implementation of Search History into live use once Google's technical and account management personnel are satisfied that Company has properly implemented Search History on the Site in accordance with Google's technical and branding requirements and otherwise in accordance with the Agreement and Google has approved the Company's implementation (such approval not to be unreasonably withheld or delayed).

f. Company will use and assign Client IDs and/or Channel IDs in relation to Search History as instructed by Google at all times, and will provide such information to Google as Google may reasonably request with respect to the use and application of any such Client IDs and/or Channel IDs.

g. Google will not have any obligations or liability under clause 12 (Indemnities) of the GSA arising from or in connection with any Search History. Company shall indemnify Google against all liabilities, costs, expenses, losses and damages suffered or incurred by Google or any Google Affiliate as a result of any third party claim in connection with, arising from or related to the use of Search History and/or the implementation of that feature on any Site. In order for the indemnity given in this clause to apply in relation to a particular claim, Google will: (i) notify the Company in writing of such claim, as soon as reasonably practicable following Google's internal investigation of such claim; (ii) provide Company with reasonable information, assistance and co-operation in defending the claim; and (iii) give Company full control and sole authority over the defence and settlement of such claim, subject to Google's approval of any such settlement, which approval will not be unreasonably withheld or delayed. Nothing in the GSA or any Order Form will exclude or limit Company's liability under this clause 7(g). Company shall be liable for any act or omission by any such third party provider which, if had been committed by Company directly, would constitute a breach of this Agreement by Company.

h. Company shall ensure that the implementation of such functionality is in accordance with the mock ups in Exhibit E and that Company "Search History" is clearly labeled with the designation approved, or notified, by Google to Company from time to time.

i. Google may prohibit the sending of Requests by Company using the Search History functionality or may refuse to serve Ads in response to such Requests, if Google in its sole discretion determines that doing so is detrimental to Google and/or Google's advertiser(s).

8. Channel IDs

Company shall promptly make such changes to its implementation of Channel IDs as Google may request from time to time.

9. Company's implementation of the Services

[***]

Signed by the parties on the dates shown below.

Google	**Company**
By: /s/ Ailis Daly for Graham Law (Board Director)	By: /s/ Josef Mandelbaum, Yacov Kaufman
Print name: Ailis Daly for Graham Law (Board Director)	Print name: Josef Mandelbaum, Yacov Kaufman
Title: Director	Title: CEO, CFO
Date: April 23, 2013	Date: April 23, 2013

PORTIONS OF THIS ORDER FORM WERE OMITTED AND HAVE BEEN FILED SEPARATELY WITH THE SECRETARY OF THE COMISSION PURSUANT TO AN APPLICATION FOR CONFIDENTIAL TREATMENT UNDER RULE 24b-2 OF THE SECURITIES EXCHANGE ACT OF 1934; [***] DENOTES OMISSIONS.

Exhibit A
[***]

PORTIONS OF THIS ORDER FORM WERE OMITTED AND HAVE BEEN FILED SEPARATELY WITH THE SECRETARY OF THE COMISSION PURSUANT TO AN APPLICATION FOR CONFIDENTIAL TREATMENT UNDER RULE 24b-2 OF THE SECURITIES EXCHANGE ACT OF 1934; [***] DENOTES OMISSIONS.

Exhibit B
[***]

PORTIONS OF THIS ORDER FORM WERE OMITTED AND HAVE BEEN FILED SEPARATELY WITH THE SECRETARY OF THE COMISSION PURSUANT TO AN APPLICATION FOR CONFIDENTIAL TREATMENT UNDER RULE 24b-2 OF THE SECURITIES EXCHANGE ACT OF 1934; [***] DENOTES OMISSIONS.

Exhibit C
[***]

Exhibit C (continued)

[***]

PORTIONS OF THIS ORDER FORM WERE OMITTED AND HAVE BEEN FILED SEPARATELY WITH THE SECRETARY OF THE COMISSION PURSUANT TO AN APPLICATION FOR CONFIDENTIAL TREATMENT UNDER RULE 24b-2 OF THE SECURITIES EXCHANGE ACT OF 1934; [***] DENOTES OMISSIONS.

Exhibit D
[***]

PORTIONS OF THIS ORDER FORM WERE OMITTED AND HAVE BEEN FILED SEPARATELY WITH THE SECRETARY OF THE COMISSION PURSUANT TO AN APPLICATION FOR CONFIDENTIAL TREATMENT UNDER RULE 24b-2 OF THE SECURITIES EXCHANGE ACT OF 1934; [***] DENOTES OMISSIONS.

Exhibit E
[***]

PORTIONS OF THIS ORDER FORM WERE OMITTED AND HAVE BEEN FILED SEPARATELY WITH THE SECRETARY OF THE COMISSION PURSUANT TO AN APPLICATION FOR CONFIDENTIAL TREATMENT UNDER RULE 24b-2 OF THE SECURITIES EXCHANGE ACT OF 1934; [***] DENOTES OMISSIONS.

Exhibit F
[***]

Exhibit F (continued)
[***]

PORTIONS OF THIS ORDER FORM WERE OMITTED AND HAVE BEEN FILED SEPARATELY WITH THE SECRETARY OF THE COMISSION PURSUANT TO AN APPLICATION FOR CONFIDENTIAL TREATMENT UNDER RULE 24b-2 OF THE SECURITIES EXCHANGE ACT OF 1934; [***] DENOTES OMISSIONS.

Schedule 1

[***]

PORTIONS OF THIS ORDER FORM WERE OMITTED AND HAVE BEEN FILED SEPARATELY WITH THE SECRETARY OF THE COMISSION PURSUANT TO AN APPLICATION FOR CONFIDENTIAL TREATMENT UNDER RULE 24b-2 OF THE SECURITIES EXCHANGE ACT OF 1934; [***] DENOTES OMISSIONS.

Schedule 2
[***]

PORTIONS OF THIS ORDER FORM WERE OMITTED AND HAVE BEEN FILED SEPARATELY WITH THE SECRETARY OF THE COMISSION PURSUANT TO AN APPLICATION FOR CONFIDENTIAL TREATMENT UNDER RULE 24b-2 OF THE SECURITIES EXCHANGE ACT OF 1934; [***] DENOTES OMISSIONS.

APPENDIX A
[***]

PORTIONS OF THIS ORDER FORM WERE OMITTED AND HAVE BEEN FILED SEPARATELY WITH THE SECRETARY OF THE COMISSION PURSUANT TO AN APPLICATION FOR CONFIDENTIAL TREATMENT UNDER RULE 24B-2 OF THE SECURITIES EXCHANGE ACT OF 1934; [***] DENOTES OMISSIONS.

APPENDIX B[***]

PORTIONS OF THIS ORDER FORM WERE OMITTED AND HAVE BEEN FILED SEPARATELY WITH THE SECRETARY OF THE COMISSION PURSUANT TO AN APPLICATION FOR CONFIDENTIAL TREATMENT UNDER RULE 24B-2 OF THE SECURITIES EXCHANGE ACT OF 1934; [***] DENOTES OMISSIONS.

APPENDIX C-1
[***]

APPENDIX C-2
[***]

Exhibit 4.9

SHARE PURCHASE AGREEMENT

by and among

Perion Network Ltd.
a company formed under the laws of Israel,

SweetIM ltd.
an international business company formed under the laws of Belize,

SweetIM Technologies ltd.
a company formed under the laws of Israel,

the Shareholders of SweetIM Ltd.

and

Nadav Goshen
as Shareholders' Agent

_____

Dated as of November 7, 2012

_____

Share Purchase Agreement

This Share Purchase Agreement (this "***Agreement***") is made and entered into as of November 7, 2012 (the "***Agreement Date***"), by and among Perion Network Ltd., a company formed under the laws of Israel ("***Purchaser***"), SweetIM Ltd., an international business company formed under the laws of Belize (the "***Company***"), SweetIM Technologies Ltd., a company formed under the laws of Israel (the "***Israeli Subsidiary***"), the Company Shareholders listed on Exhibit A, and Nadav Goshen as "***Shareholders' Agent***". Certain other capitalized terms used in this Agreement are defined in Exhibit B.

Recitals

A. The Company Shareholders collectively are the holders and the record and beneficial owners of all of the Company Share Capital.

B. Each Company Shareholder is the record and beneficial owner of the number of Company Shares (as defined below) set forth opposite such Company Shareholder's name on Schedule 2.2 of the Company Disclosure Letter.

C. Purchaser desires, subject to the terms and conditions set forth in this Agreement, to, purchase from the Company Shareholders and each Company Shareholder desires to sell to Purchaser all Company Share Capital owned by such Company Shareholder subject to the terms and conditions set forth in this Agreement (the "***Share Purchase***").

D. The Company, the Company Shareholders and Purchaser desire to make certain representations, warranties, covenants and other agreements in connection with the Share Purchase as set forth herein.

E. The board of directors of the Company (the "***Company Board of Directors***") has carefully considered the terms of this Agreement and has determined that the terms and conditions of the transactions contemplated hereby, are fair to and in the best interests of, and are advisable to, the Company, the Company Securityholders and the Company's employees and creditors, has approved this Agreement and the transactions contemplated hereby and has recommended that the Company Shareholders approve this Agreement and the transactions contemplated hereby and execute this Agreement.

F. Concurrently with the execution of this Agreement, and as a condition and inducement to Purchaser's willingness to enter into this Agreement, the Company shall have obtained and delivered to Purchaser a true, correct and complete copy of a unanimous written consent of the Company Shareholders evidencing the adoption and approval of this Agreement (the "***Company Shareholder Approval***"), signed by all of the Company Shareholders in accordance with the Company's Charter Documents and the Belize International Business Companies Act (the "***IBCA***") (the "***Requisite Shareholder Approval***").

G. Concurrently with the execution of this Agreement, and as a condition and inducement to Purchaser's willingness to enter into this Agreement, each key employee and consultant of the Israeli Subsidiary listed in Exhibit C hereto has executed a termination and waiver agreement with the Company and an employment agreement (including a retention plan) with Purchaser (the "***Key Employee Agreements***"), to be effective upon the Closing;

H. The board of directors of Purchaser has carefully considered the terms of this Agreement and has determined that the terms and conditions of the transactions contemplated hereby are in the best interests of, and are advisable to, Purchaser and has approved this Agreement and the transactions contemplated hereby.

Now, Therefore, in consideration of the representations, warranties, and agreements contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE 1
Purchase and Sale

1.1 The Share Purchase.

(a) Company Share Capital. On the terms and subject to the conditions of this Agreement, each Company Shareholder, severally and not jointly, agrees to sell, transfer and deliver to Purchaser at the Closing, and Purchaser agrees to purchase from such Company Shareholder, all of the Company Shares owned by such Company Shareholder as of immediately prior to the Closing, as set forth on the spreadsheet (the "**Signing Spreadsheet**") attached hereto as Exhibit D, free and clear of all Encumbrances, in exchange for the applicable consideration (whether in Cash Consideration and/or Purchaser Ordinary Shares) for each Company Share, as set forth on the Signing Spreadsheet, subject to Section 1.1(h). In addition, and with respect to each Company Shareholder, severally and not jointly, Purchaser may deduct any withholding amounts as further described in this ARTICLE 1.

(b) Company Options. No Company Option (whether vested or unvested) that is outstanding immediately prior to the Closing shall be assumed by Purchaser. Each Company Option (whether vested or unvested) will automatically, and without any further action on the part of any holder thereof, be cancelled immediately prior to the Closing and in consideration for such cancellation each holder thereof shall be included in the disbursement of the Closing Payment, Deferred Payment, Contingent Payment (if any) and Contingent Ruling Payment (if any), as and when such disbursements are made to the Company Shareholders, plus the applicable portion of any amounts required to be disbursed from the Set-off Amount to the Company Shareholders in accordance with the terms of this Agreement, with respect to its Company Options, an amount, in Cash Consideration (without interest), equal to the respective amount (if any) set forth opposite such holder's name on the Signing Spreadsheet, subject to Section 1.1(h) (such amount herein referred to as the "***Option Amount***" per Company Optionholder, and such aggregate amount, the "***Aggregate Option Amount***"). At or prior to the Closing, the Company shall take all actions under the Company Option Plan and otherwise to cause each of the Company Options to be canceled and extinguished as of the Closing Date. In addition, and with respect to each Company Optionholder, severally and not jointly, Purchaser may deduct any withholding amounts as further described in this ARTICLE 1.

(c) Withholding; Certain Tax Matters.

(i) Each of Purchaser, the Paying Agent, the 102 Trustee, the Company and the Israeli Subsidiary shall be entitled to deduct and withhold from any consideration payable or otherwise deliverable pursuant to this Agreement to any Company Shareholder and Company Optionholder such amounts that are required to be deducted or withheld therefrom or in connection therewith under any provision of state, local or foreign Tax law or under any other applicable Legal Requirement, including, without limitation, the Israeli Income Tax Ordinance [New Version] 1961 (the "***Israeli Income Tax Ordinance***") at the applicable rate for such withholding. To the extent such amounts were so deducted or withheld, such amounts shall be (i) treated for all purposes under this Agreement as having been paid to the Person to whom such amounts would otherwise have been paid and (ii) remitted in accordance with the applicable Legal Requirements by Purchaser, the Paying Agent, the 102 Trustee, the Company or the Israeli Subsidiary, to the applicable Governmental Entity. In the case of any amounts withheld pursuant to or in accordance with this Agreement, the withholding party shall promptly provide to the Company Shareholders and Company Optionholders from which such amounts were withheld written confirmation of the amount so withheld. To the extent that such amounts are required to be deducted or withheld, such amounts will be withheld first from the cash amount payable to a Company Shareholder or Company Optionholder subject to withholding rather than the Purchaser Ordinary Shares payable to a Company Shareholder or Company Optionholder. In the event such amounts required to be deducted or withheld by Purchaser, the Paying Agent, the 102 Trustee, the Company or the Israeli Subsidiary exceed the cash amount payable to a Company Shareholder or Company Optionholder subject to withholding, Purchaser shall be entitled to repurchase (and Purchaser, the Paying Agent, the 102 Trustee, the Company or the Israeli Subsidiary, as the case may be, is authorized to sell to Purchaser, on behalf of a Company Shareholder or Company Optionholder), the portion of the Purchaser Ordinary Shares otherwise deliverable to a Company Shareholder or Company Optionholder, to enable the withholding party to comply with such deduction or withholding requirement. The repurchase of any Purchaser Ordinary Shares will be based on the Market Value of the Purchaser Ordinary Shares. In the event that Purchaser, in its sole discretion, elects to sell, or cause the sale of, any of such Purchaser Ordinary Shares, Purchaser, the 102 Trustee, the Company or the Israeli Subsidiary shall notify the relevant Company Shareholder or Company Optionholder that such sale and withholding or deduction was made and remit to such Company Shareholder or Company Optionholder any balance of the proceeds of such sale not applied to the payment of Taxes less any costs or expenses incurred by Purchaser, the Paying Agent, the 102 Trustee, the Company or the Israeli Subsidiary in connection with such sale. It is clarified that the transfer to a Company Shareholder or Company Optionholder of its entire portion of the Closing Payment Cash Consideration and its entire portion of its Aggregate Share Consideration shall be made at the same time, and a Company Shareholder or Company Optionholder shall not be entitled to receive its portion of the Closing Payment Cash Consideration prior to receipt of its portion of the Aggregate Share Consideration.

(ii) Notwithstanding the provisions of Section 1.1(c)(i) above, with respect to Israeli Tax, the Aggregate Consideration payable hereunder to each of the Company Shareholders and non-Israeli Company Optionholders , shall be paid to and retained by the Paying Agent for the benefit of each such Company Shareholder and non-Israeli Company Optionholder, if any, for a period of 180 days from the Closing Date, the Deferred Payment Date or the Contingent Payment Date, as applicable, or an earlier date required in writing by a Company Shareholder or non-Israeli Company Optionholder (the "***Withholding Drop Date***") (during which time neither Purchaser nor the Paying Agent shall withhold any Israeli Tax on such consideration, except as provided below), and during which time each Company Shareholder and non-Israeli Company Optionholder may obtain a certification or ruling (the "***Qualified Withholding Certificate***") issued by the Israeli Tax Authority ("***ITA***"), in form and substance reasonably acceptable to Purchaser, (x) exempting Purchaser from the duty to withhold Israeli Taxes with respect to such Company Shareholder and non-Israeli Company Optionholder or (y) determining the applicable rate of Israeli Tax to be withheld from such Company Shareholder and non-Israeli Company Optionholder. In the event that no later than five (5) Business Days before the Withholding Drop Date, a Company Shareholder and/or non-Israeli Company Optionholder submits a Qualified Withholding Certificate, in form and substance reasonably acceptable to Purchaser, the Paying Agent shall withhold and transfer to the ITA such amount of withholding due from such Company Shareholder and/or non-Israeli Company Optionholder as specified in such Qualified Withholding Certificate, and shall pay to such Company Shareholder and/or non-Israeli Company Optionholder only the balance of the payment due to such Company Shareholder and/or non-Israeli Company Optionholder that is not so withheld. If any Company Shareholder and/or non-Israeli Company Optionholder (A) does not provide the Paying Agent with a Qualified Withholding Certificate, in form and substance reasonably acceptable to Purchaser, no later than five (5) Business Days before the Withholding Drop Date, or (B) submits a written request with the Paying Agent to release his portion of the Aggregate Consideration prior to the Withholding Drop Date and fails to submit a Qualified Withholding Certificate at or before such time, in form and substance reasonably acceptable to Purchaser, then the amount to be withheld from such Company Shareholder's and/or non-Israeli Company Optionholder's portion of the Aggregate Consideration shall be calculated according to the applicable withholding rate as reasonably determined by Purchaser (plus applicable linkage differences and interest as defined in Section 159A of the Israeli Income Tax Ordinance for the time period between the 15th calendar day of the month following the month during which the Closing Date, the Deferred Payment Date or the Contingent Payment Date, as applicable, occurs and the time the relevant payment is made, and calculated in NIS based on the US$:NIS exchange rate not lower than the rate at the Closing Date, the Deferred Payment Date or the Contingent Payment Date, as applicable) which amount (the "***Tax Amount***") shall be delivered to the ITA by the Paying Agent and Purchaser shall pay to such Company Shareholder and/or non-Israeli Company Optionholder the balance of the payment due to such Company Shareholder and/or non-Israeli Company Optionholder that is not so withheld.

(iii) The provisions of Section 1.1(c)(ii) above shall not apply with respect to any payments made to the 102 Trustee (in respect of Company Shares subject to the provisions of Section 102(b) and in relation to Company Options granted to Israelis), or the Israeli holders of Company Options, and applicable amounts will be deducted or withheld under the Israeli Income Tax Ordinance, unless, with respect to Israeli holders of Company Options or of shares deriving therefrom addressed in the Israeli Options Tax Ruling or any interim Israeli Options Tax Ruling (as defined below) - the Israeli Options Tax Ruling (or any interim Israeli Options Tax Ruling) shall have been obtained before the 15th of the calendar month following the month during which Closing occurs, which ruling shall provide that Purchaser, the Paying Agent and anyone acting on their behalf shall be exempt from Israeli withholding tax with respect to any of the payments made pursuant to this Agreement to the 102 Trustee or the Paying Agent, as applicable, and further instructing the 102 Trustee or the Paying Agent, as applicable, on the withholding of Israeli tax on such payments; provided, however, that in any event in which a Company Shareholder and/or Israeli Company Optionholder submits a Qualified Withholding Certificate, prior to any payment hereunder, in form and substance reasonably acceptable to Purchaser, the Paying Agent shall withhold and transfer to the ITA such amount of withholding due from such Company Shareholder and/or Israeli Company Optionholder as specified in such Qualified Withholding Certificate.

(iv) Notwithstanding the foregoing, the parties agree that the party withholding any amount may convert into NIS any US$ on or prior to the date of the original payment in such amount as Purchaser deems adequate in order to meet its withholding obligations including to cover for any deficiencies due to exchange rate fluctuations.

(v) Israeli Options Tax Ruling. As soon as reasonably practicable after the Agreement Date, the Company shall cause its Israeli counsel and/or Israeli consultants in full coordination with Purchaser and its Israeli counsel, to prepare and file with the ITA an application for a ruling in relation to the Company Shares subject to the provisions of Section 102(b) and in relation to Company Options held by Israeli tax residents confirming that: (A) the payment of the Aggregate Consideration for Company Shares which remain subject to the statutory minimum trust period under such Section 102(b) and the exchange of Company Options for the Option Amount under Section 1.1(b) above will not constitute a violation of the requirements of Section 102(b); and (B) Purchaser and anyone acting on its behalf, including the Paying Agent, shall be exempt from withholding tax in relation to any payments or consideration, including transfer of the Aggregate Consideration and Option Amount transferred to the 102 Trustee in relation to Company Shares subject to Section 102(b) and Company Options; and (C) that the Deferred Payments and Contingents Payments in respect of Company Shares subject to Section 102(b) and Company Options shall not be subject to Israeli Tax until actually received by the applicable Company Securityholders; and (D) that payment of the Special Cash Dividend for Company Shares subject to Section 102(b) of the Israeli Income Tax Ordinance is eligible for the preferable tax rates provided in Section 102(b) of the Israeli Income Tax Ordinance; which ruling may be subject to customary conditions regularly associated with such a ruling (the "***Israeli Options Tax Ruling***"). The parties will cause their respective Israeli counsel, advisors and accountants to cooperate and provide all information required and which is in their possession with respect to the Company's preparation and filing of such application and in the preparation of any written or oral submissions that may be necessary, proper or advisable to obtain the Israeli Options Tax Ruling. The Company, its representatives and advisors shall not make any application to, or conduct any negotiation with, the ITA with respect to any matter relating to the subject matter of the Israeli Options Tax Ruling without prior coordination with, and approval by, Purchaser or its representatives and advisors, and will enable Purchaser's representatives and advisors to participate in all discussions and meetings relating thereto. To the extent that Purchaser's representative and advisors elect not to participate in any meeting or discussion, the Company's representatives and advisors shall update Purchaser regarding the discussions held. In any event, the final text of the Israeli Options Tax Ruling shall be subject to the prior written consent of Purchaser, which consent shall not be unreasonably withheld or delayed.

(1) The parties hereto understand and acknowledge that the Israeli Options Tax Ruling may not be granted prior to Closing in which case the Company's advisors shall seek to receive an interim ruling which will determine that Purchaser and anyone acting on its behalf, including the Paying Agent, shall be exempt from withholding tax in relation to any payments or consideration, including transfer of the Aggregate Consideration and Option Amount transferred to the 102 Trustee in relation to Company Shares subject to Section 102(b) and Company Options and may further require an initial tax payment to be made to the ITA prior to receipt of the Israeli Options Tax Ruling.

(2) The parties hereto understand and acknowledge that the Israeli Options Tax Ruling may not be obtained or may contain such provisions, terms and conditions as the ITA may prescribe, which may be different from those detailed above. The parties further understand and acknowledge that the benefits to holders contemplated in this Section 1.1(c) may not be granted, or may not be granted in full. Subject to obtaining the Interim Option Ruling, the parties agree that in the event that the Israeli Options Tax Ruling is not obtained within the applicable timeframe prescribed by the Interim Option Ruling, and unless this period is extended by mutual consent of Purchaser and the Shareholders' Agent, the Section 102 Trustee shall be entitled to withhold any amount as may be required under applicable laws and in accordance with applicable laws. Whereas in the event that the ITA prescribes provisions, terms or conditions that differ from those detailed above, the Section 102 Trustee shall act in accordance with the provision, terms and conditions of the Israeli Options Tax Ruling.

(d) 104(h) Tax Pre-Ruling. The Company and the Company Shareholders and Company Option Holders may prepare and file with the ITA an application for a ruling permitting any Company Shareholder and Company Option Holder who elect to become a party to such a tax pre-ruling (the "***Electing Holder***"), to defer any applicable Israeli tax with respect to any consideration in Purchaser Ordinary Shares that such Electing Holder will receive pursuant to this Agreement until the sale, transfer or other conveyance for cash of such Purchaser Ordinary Shares by such Electing Holder or such other date set forth in Section 104(h) of the Israeli Income Tax Ordinance (the *"**104(h) Tax Pre-Ruling**"*). Purchaser shall cooperate with the Company, Company Shareholders, and Company Option Holders and its Israeli counsel with respect to the preparation and filing of such application and in the preparation of any written or oral submissions that may be necessary, proper or advisable to obtain the 104(h) Tax Pre-Ruling. Subject to the terms and conditions hereof, the parties shall use their best efforts to promptly take, or cause to be taken, all action and to do, or cause to be done, all things necessary, proper or advisable under applicable law to obtain the 104(h) Tax Pre-Ruling, as promptly as practicable. If the 104(h) Tax-Pre Ruling shall be received and delivered to Purchaser prior to the applicable withholding date, then the provisions of the 104(h) Tax-Pre Ruling shall apply notwithstanding any provision in Section 1.1(c)(i) or (ii) to the contrary and all applicable withholding and reporting procedures shall be made in accordance with the provisions of the 104(h) Tax Pre-Ruling and Section 104(h) of the Israeli Income Tax Ordinance.

(e) Treatment of Company Share Capital Owned by the Company. At the Closing, all shares of Company Share Capital that are owned by the Company immediately prior to the Closing, if any, shall be canceled and extinguished without any conversion thereof.

(f) Aggregate Consideration. The maximum consideration payable as set forth in this Agreement in connection with the Share Purchase for all of the issued and outstanding capital stock of the Company on a Fully Diluted Basis as of the Closing Date shall be: (i) ten million U.S. Dollars ($10,000,000) in cash (subject to Section 1.3(a)(iv)) and one million nine hundred ninety thousand (1,990,000) Purchaser Ordinary Shares (subject to Section 1.2(d)) payable at the Closing (the "***Closing Payment***"); (ii) up to seven million five hundred thousand U.S. Dollars ($7,500,000) in cash payable pursuant to Section 1.3(b) (the "***Deferred Payment***"); and (iii) up to seven million five hundred thousand U.S. Dollars ($7,500,000) in cash payable pursuant to Section 1.6 (the "***Contingent Payment***"), subject to adjustment and payable as provided in this Agreement.

(g) Closing. The consummation of the Share Purchase (the "***Closing***") shall take place at the offices of Goldfarb Seligman & Co., Electra Tower, 98 Yigal Alon Street, Tel-Aviv, Israel, or at such other location as the parties hereto agree at 10:00 a.m. local time on a date to be mutually agreed upon by Purchaser and the Company, which date shall be no later than the second Business Day after all of the conditions set forth in ARTICLE 7 of this Agreement have been satisfied or waived (other than those conditions which, by their terms, are intended to be satisfied at the Closing), or at such other time and place as Purchaser and the Company shall mutually agree to ensure a month-end Closing or otherwise. The date on which the Closing occurs is sometimes referred to in this Agreement as the "***Closing Date***."

(h) Closing Spreadsheet. The information set forth in the Signing Spreadsheet is an estimate only, and the actual amounts to be paid to the Company Shareholders and Company Optionholders shall be as set forth in the Closing Spreadsheet (as defined in Section 6.9), subject to adjustments in accordance with the terms of this Agreement.

(i) Adjustments. In the event of any share split, reverse share split, share dividend (including any dividend or distribution of securities convertible into capital shares), reorganization, reclassification, combination, recapitalization or other like change with respect to the Company Shares or Purchaser Ordinary Shares occurring after the Agreement Date and prior to the Closing, all references in this Agreement and the Signing Spreadsheet to specified numbers of shares of any class or series affected thereby, and all calculations provided for that are based upon numbers of shares of any class or series (or trading prices therefor) affected thereby, shall be equitably adjusted to the extent necessary to provide the parties the same economic effect as contemplated by this Agreement prior to such share split, reverse share split, share dividend, reorganization, reclassification, combination, recapitalization or other like change.

1.2 Closing Deliveries.

(a) Purchaser Deliveries. Purchaser shall deliver to the Company (or such other Person as specified below), at or prior to the Closing, each of the following:

(i) the Closing Payment (including both the Purchaser Ordinary Shares and cash portions thereof) to the Paying Agent and the 102 Trustee for distribution to the Company Shareholders and the Company Optionholders pursuant to Section 1.4(a)(i) and the Closing Spreadsheet, and in accordance with the provisions of the Paying Agent Agreement to be entered between Purchaser, the Paying Agent and the Shareholders' Agent (the *"**Paying Agent Agreement**"*), in each case subject to Section 1.1(c), and *less* any Transaction Expenses that shall not have been paid prior to the Closing and the Working Capital Shortfall, if any.

(ii) a certificate, dated as of the Closing Date, executed on behalf of Purchaser by a duly authorized officer of Purchaser to the effect that each of the conditions set forth in clause (a) of Section 7.2 have been satisfied.

(iii) Registration Rights Agreement duly executed by Purchaser and the Company Shareholders listed in Schedule 1.2(a)(iii) hereof, in the form attached here as Exhibit E.

(iv) a legal opinion of Goldfarb Seligman & Co., legal counsel to Purchaser, in the form attached hereto as Exhibit F.

(b) Company Deliveries. The Company or the Company Shareholders, as applicable, shall deliver to Purchaser, at or prior to the Closing,

(i) all of the certificates or instruments, which immediately prior to the Closing represented issued and outstanding Company Share Capital (the "***Converting Instruments***"), together with duly executed share transfer deeds, in a form that is reasonably acceptable to Purchaser;

(ii) a certificate, dated as of the Closing Date and executed on behalf of the Company and the Israeli Subsidiary by the Israeli Subsidiary's chief executive officer (in his capacities as the authorized person by the Company Board of Directors and the chief executive officer of the Israeli Subsidiary) (the "***Authorized Person***"), to the effect that each of the conditions set forth in clauses (a), (c), (d), (e), (f), (i) and (k) of Section 7.3 have been satisfied;

(iii) a certificate, dated as of the Closing Date and executed on behalf of the Company by the Authorized Person, certifying (A) the Articles of Association, including all amendments thereto, of the Company and the Israeli Subsidiary, as amended to date (together, the " ***Charter Documents***"), (B) the resolutions of the Company Board of Directors approving the Share Purchase, this Agreement, the Special Cash Dividend, the ratification of certain matters, and that no further Company Options will be granted pursuant to the Company Employee Plans, (C) the resolutions of the Israeli Subsidiary Shareholder approving this Agreement, the Special Cash Dividend and ratifying certain matters, (D) the unanimous written consent of the Company Shareholders evidencing the Company Shareholder Approval and ratifying certain matters, and (E) the resolutions of the board of directors of the Israeli Subsidiary approving this Agreement,the Special Cash Dividend, ratifying certain matters, and that no further Company Options will be granted pursuant to the Company Employee Plans;

(iv) a written opinion from the Company's legal counsel, covering the matters set forth on Exhibit G, dated as of the Closing Date and addressed to Purchaser;

(v) evidence satisfactory to Purchaser of the resignation of each of the directors of the Company and the Israeli Subsidiary in office immediately prior to the Closing as directors of the Company and the Israeli Subsidiary effective no later than immediately prior to the Closing;

(vi) a certificate issued under the hand and seal the Secretary of State (or the Registrar of Companies or the like) of Belize dated within three days prior to the Closing Date certifying that the Company is in good standing and that all applicable Taxes and fees of the Company, up to and including the Closing Date, have been paid;;

(vii) a duly notarized Certificate of Incumbency issued and signed by the Registered Agent of the Company, dated within three days prior to the Closing Date, certifying: (i) the date of incorporation of the Company, (ii) the registered address of the Company, (iii) the name and address of the registered agent of the Company, (iv) that the Company is in good standing, (v) the name and address of each director of the Company, (vi) the name and address of each Company Shareholder, (vii) the number of Company Shares held by each Company Shareholder, (viii) whether any of the Company Shares are under any lien or are unpaid, and (ix) whether the Company maintains a register of mortgages and charges, and whether there are any entries therein and if so, to state such entries;

(viii) the Closing Spreadsheet (as such term is defined in Section 6.9) completed to include all of the information specified in Section 6.9 in a form acceptable to Purchaser and a certificate executed by the Authorized Person, dated as of the Closing Date, certifying that such Closing Spreadsheet is true, correct and complete;

(ix) the Company Net Working Capital Certificate, which certificate shall be accompanied by such supporting documentation, information and calculations as are reasonably necessary for Purchaser to verify and determine the amount of Company Net Working Capital;

(x) the Transaction Expenses Certificate, which certificate shall be accompanied by such supporting documentation, information and calculations as are reasonably necessary for Purchaser to verify and determine the amount of Transaction Expenses;

(xi) the shareholders registry of the Company certified as true and complete by the Authorized Person, evidencing the transfer and ownership of all of the Company Shares to Purchaser;

(xii) fully executed Closing Allocation Certificates from each Company Shareholder and each Company Optionholder;

(xiii) fully executed Optionholder Instruments from each Company Optionholder outstanding at Closing; and

(xiv) the certificates accompanying the Closing Financial Statements and the accounts receivable pursuant to Section 7.3(j) and 7.3(l), respectively.

(c) Rights Not Transferable. The rights of the Company Securityholders under this Agreement as of immediately prior to the Closing are personal to each such securityholder and shall not be transferable for any reason otherwise than by operation of law, will or the laws of descent and distribution. Any attempted transfer of such right by any holder thereof (otherwise than as permitted by the immediately preceding sentence) shall be null and void.

(d) Fractional Shares. No fractional shares of Purchaser Ordinary Shares will be issued in connection with the Share Purchase, and any fractional share that would otherwise be due to a any Company Shareholder or Company Optionholder pursuant to this Agreement (after aggregating all fractional shares to be received by such Person) shall be rounded to the nearest whole share, and each of the Signing Spreadsheet and the Closing Spreadsheet shall be prepared accordingly.

1.3 Payment of Consideration.

(a) Payment Procedures.

(i) At the Closing, Purchaser shall cause to be deposited with a paying agent, the identity of which to be mutually agreed upon by the parties as soon as reasonably practicable following the Agreement Date and in no event later than ten (10) business days prior to the Closing (the "***Paying Agent***"), the cash portion of the Closing Payment and the Aggregate Share Consideration, as set forth on the Closing Spreadsheet. The Aggregate Share Consideration shall be delivered and deposited by Purchaser as follows: upon the Closing, Purchaser shall deliver to Purchaser's transfer agent (with a copy to the Company) duly executed irrevocable instructions instructing the transfer agent to deliver, on an expedited basis, a certificate(s) evidencing a number of Purchaser Ordinary Shares equal to the Aggregate Share Consideration, registered in the name of the Paying Agent and, to the extent applicable, in the name of the 102 Trustee. Purchaser shall pay the fees and expenses (excluding wire fees) of the Paying Agent in its capacity as the paying agent and not in its capacity as the 102 Trustee.

(ii) The Paying Agent will be instructed to pay by wire transfer of same-day funds the applicable Cash Consideration and cash portion of the Option Amount (as set forth on the Closing Spreadsheet), in each case subject to Section 1.1(c), to each Company Shareholder and Company Optionholder. Notwithstanding the foregoing, any Cash Consideration and Option Amount payable to Company Shareholders and Company Optionholders, as applicable, holding Company Shares and Company Options pursuant to Section 102(b) shall be paid to the 102 Trustee. If any Converting Instrument shall have been lost, stolen, or destroyed, upon the making of an affidavit of that fact by the Person claiming such document to be lost, stolen, or destroyed and, if required by Purchaser, the payment of any reasonable fees, and the indemnity against any claim that may be made against it with respect to such document, the Paying Agent will issue in exchange for such lost, stolen, or destroyed document, the applicable consideration to which the holder is entitled pursuant to Section 1.1.

(iii) As soon as reasonably practicable after the earlier of: (i) the Withholding Drop Date applicable to each Company Shareholder, (ii) delivery of a Qualified Withholding Certificate, and (iii) the written request of the Company Shareholder, the Paying Agent will cause to be delivered to such Company Shareholder the applicable Cash Consideration and a certificate representing the number of shares of Purchaser Ordinary Shares that such holder has the right to receive pursuant to Section 1.1, in accordance with the provisions of the Paying Agent Agreement, in respect of such holder's Company Shares, in each case subject to Sections 1.1(a)-(c).

(iv) A portion of the cash portion of the Closing Payment otherwise payable to the Company Shareholders equal to $200,000 (the "***Rep Reimbursement Amount***"), shall not be paid at the Closing to the Company Shareholders, but shall instead be deposited with the Paying Agent, to be used by the Shareholders' Agent for the payment of expenses incurred by the Shareholders' Agent in performing his duties pursuant to this Agreement. The portion of the Closing Payment to be contributed hereunder to the Rep Reimbursement Amount shall be based on the respective Pro Rata Share of each Company Shareholder. In the event that the Shareholders' Agent has not used the entire Rep Reimbursement Amount at such time as the termination of the Set-off Right, any remaining amount shall be distributed by the Paying Agent to the Company Shareholders according to the respective Pro Rata Share. If the Rep Reimbursement Amount shall be insufficient to reimburse each of the Shareholders' Agent's expenses in accordance with this Agreement, then upon written request of the Shareholders' Agent, each Company Shareholder shall make a payment of its respective share of such additional expenses to the Shareholders' Agent, based on such Company Shareholder Pro Rata Share.

(b) On the one-year anniversary of the Closing Date, or if such day is not a Business Day, on the first Business Day after the one-year anniversary of the Closing Date (the "***Deferred Payment Date***"), Purchaser shall deposit with the Paying Agent the Deferred Payment, as follows: cash in the amount of seven million five hundred thousand U.S. Dollars ($7,500,000), subject to adjustment as set forth in this Agreement, *less* any Set-off Amount and subject to Section 1.5(g). Notwithstanding the foregoing, any Cash Consideration and Option Amount payable on the Deferred Payment Date to Company Shareholders and Company Optionholders, as applicable, holding Company Shares and Company Options pursuant to Section 102(b) shall be paid to the 102 Trustee. The Deferred Payment, as adjusted if applicable, shall be distributed by the Paying Agent and the 102 Trustee to the Company Securityholders. Any Set-off Amount shall be held by Purchaser and applied for the payment of indemnification obligations under ARTICLE 9 hereof. Promptly following the receipt of the Deferred Payment by the Paying Agent, but in no event later than three Business Days thereafter, the Paying Agent shall cause each Company Securityholder to receive its portion of the Deferred Payment, pursuant to the Closing Spreadsheet, *less* any required Tax withholdings and Set-off Amounts. Notwithstanding the foregoing, upon the written notice of the Shareholders' Agent to Purchaser, the Deferred Payment Date shall be accelerated and the Deferred Payment shall be immediately due and payable if Purchaser shall publish (including by way of issuing a press release reporting its quarterly results) a consolidated balance sheet of Purchaser reflecting an aggregate amount of cash, cash equivalents and marketable securities (as determined in accordance with GAAP consistently applied) of less than four million U.S. Dollars ($4,000,000), unless Purchaser shall have delivered concurrently to the Shareholders' Agent a certificate signed by the Chief Financial Officer of Purchaser setting forth in reasonable detail that such shortfall has been remedied as of the date of such certificate, including by the immediate availability of a credit line in an amount that, together with the foregoing balance, exceeds four million U.S. Dollars ($4,000,000). Notwithstanding the foregoing, in the event that the Deferred Payment Date is so accelerated, concurrently with the payment of the Deferred Payment, Purchaser shall deposit in escrow three million five hundred thousand U.S. Dollars ($3,500,000) of the Deferred Payment *less* any amount already set off pursuant to the Set-off Right, with an escrow agent to be mutually selected by the Shareholders' Agent and Purchaser, which escrow shall be used for the indemnification of the Indemnified Persons pursuant to an escrow agreement to be entered into by Purchaser and the Shareholders' Agent on terms substantially similar to those set forth in ARTICLE 9 hereof, *mutatis mutandis*. In the event that Purchaser fails to make any portion of the Deferred Payment within seven (7) Business Days when due in breach of this Agreement, the unpaid amount shall bear interest at the rate of fifteen percent (15%) per year, computed on the basis of a 365-day year.

(c) On the 18-month anniversary of the Closing Date, or if such day is not a Business Day, on the first Business Day after the 18-month anniversary of the Closing Date (the "***Contingent Payment Date***"), pursuant to and subject to Section 1.6 below, Purchaser shall transfer the amount of the Contingent Payment, if any, to the Paying Agent, *less* any Set-off Amount not previously deducted under Section 1.3(b). Notwithstanding the foregoing, any Cash Consideration payable on the Contingent Payment Date to Company Shareholders and Company Optionholders, as applicable, holding Company Shares and Company Options pursuant to Section 102(b) shall be paid to the 102 Trustee. Any Set-off Amount shall be held by Purchaser and applied for the payment of indemnification obligations under ARTICLE 9 hereof. The Contingent Payment, as adjusted if applicable, shall be distributed by the Paying Agent and the 102 Trustee to the Company Securityholders, subject to Section 1.6 below. Promptly following the payment of the Contingent Payment, if any, but in no event later than three Business Days thereafter, the Paying Agent shall cause each Company Securityholder to receive its portion of the Contingent Payment, pursuant to the Closing Spreadsheet, less any required Tax withholdings, subject to Section 1.6 below.

(d) If the Domiciliation Ruling is obtained by the Shareholders' Agent prior to the payment of the Special Cash Dividend, and in Purchaser's sole judgment, such ruling allows the Company to be treated as an Israeli resident for purposes of Purchaser's ability to amortize the Aggregate Consideration pursuant to Section 21 of the "Angels Law", then within seven (7) Business Days following the receipt of such ruling, Purchaser shall transfer one million U.S. Dollars ($1,000,000) to the Paying Agent (the "***Contingent Ruling Payment***"). Notwithstanding the foregoing, any amount of the Contingent Ruling Payment payable to Company Shareholders and Company Optionholders, as applicable, holding Company Shares and Company Options pursuant to Section 102(b) shall be paid to the 102 Trustee. The Contingent Ruling Payment shall be distributed by the Paying Agent and the 102 Trustee to the Company Securityholders. Promptly following the payment of the Contingent Ruling Payment, if any, but in no event later than three Business Days thereafter, the Paying Agent shall cause each Company Securityholder to receive its portion of the Contingent Ruling Payment, pursuant to the Closing Spreadsheet, less any required Tax withholdings.

(e) Nine (9) months following the Closing Date, the Deferred Payment Date, the Contingent Payment Date or the date of payment of the Contingent Ruling Payment, as the case may be, Purchaser shall be entitled to cause the Paying Agent to deliver to it any funds (including any interest received with respect thereto) made available to the Paying Agent that have not been disbursed to Company Securityholders, and thereafter such holders shall be entitled to look to Purchaser only as general creditors thereof with respect to the cash payable upon due surrender of their certificates or agreements.

(f) Notwithstanding the foregoing, neither the Paying Agent nor any party hereto shall be liable to any holder of certificates formerly representing Company Shares for any amount paid to a public official pursuant to any applicable abandoned property, escheat or similar law.

(g) With respect to the Purchaser Ordinary Shares that are being held by the Paying Agent pursuant to this Agreement: (A) any dividends that are paid in respect thereof shall be held in escrow by the Paying Agent and released at the same time and to the same Person as the underlying Purchaser Ordinary Shares; and (B) the Paying Agent shall vote such shares as instructed by Purchaser.

(h) Except as set forth in the Paying Agent Agreement, no interest shall accumulate on any cash payable in connection with the Share Purchase.

1.4 No Further Ownership Rights in the Company Share Capital or Company Options. The Aggregate Consideration paid or payable in accordance with the terms hereof shall be paid or payable in full satisfaction of all rights pertaining to the Company Share Capital and Company Options, and after the Closing there shall be no further issuances or registration of transfers on the records of the Company of shares of Company Share Capital which were issued and outstanding immediately prior to the Closing. If, after the Closing, any Converting Instrument is presented to the Company or Purchaser for any reason, such Converting Instrument shall be canceled.

1.5 Company Net Working Capital Adjustment.

(a) Pursuant to Section 6.12 hereof, not less than three (3) Business Days prior to the Closing, the Company shall deliver to Purchaser a certificate executed by the Authorized Person detailing the Company's good faith best estimate, as prepared by Brooks Keret (the "***Company Accountant***"), of (i) Company Net Working Capital of the Closing Date, including a draft of the Company's and the Israeli Subsidiary's unaudited balance sheets as of the Closing Date prepared on a consistent basis with the Company Financial Statements, (ii) the Cash as of the Closing Date, and (iii) the Google Payments as of the Closing Date (the "***Company Net Working Capital Certificate***"). The Company Net Working Capital Certificate shall be prepared by the Company in US Dollars, in accordance with GAAP and in accordance with Schedule 1.5(a) and shall fairly and accurately present the Company's good faith best estimate (based on reasonable assumptions) of the balance sheet of the Company and the Israeli Subsidiary and the estimated Company Net Working Capital as of the close of business on the Closing Date. The Company Net Working Capital Certificate may be used by the Purchaser to reduce the Aggregate Consideration payable pursuant to this Agreement to the extent, if any, that the amount of Company Net Working Capital set forth therein shall be less than one million U.S. Dollars ($1,000,000), including Cash of at least one million U.S. Dollars ($1,000,000) (the *"**Working Capital Target***", and the amount of such deficiency, if any, being referred to herein as the "***Working Capital Shortfall***"), it being understood, for purposes of computing the Working Capital Shortfall and the Negative Adjustment Amount, that shortfall in the Cash target that results in a shortfall in the working capital target shall be counted only once.

*"**Company Net Working Capital**"* means (A) the Company's total current assets as of the close of business on the Closing Date (in US dollars and as determined in accordance with GAAP) less (B) the Company's total current liabilities as of the close of business on the Closing Date (in US dollars and as determined in accordance with GAAP), excluding any Transaction Expenses and an equal amount of Cash and excluding the current portions of liabilities that shall be reduced from the Special Cash Dividend pursuant to Section 6.18, to the extent known at such time. The calculation of Company Net Working Capital shall be based on the books and records of the Company consistent with the Company Financial Statements and the methodology relating thereto is set forth in Schedule 1.5(a), which the parties agree will be the methodology used in determining the Company Net Working Capital.

*"**Google Payments**"* means the accounts receivable of the Company from Google Inc. as of the close of business on the Closing Date.

(b) Within 90 days after the Closing, Purchaser may object to the Company Net Working Capital calculations (including the amount of Cash and the Google Payments) included in the Company Net Working Capital Certificate (the *"**NWC Calculations**"*) by delivering to the Shareholders' Agent a certificate (the "***Purchaser NWC Certificate***") executed by Purchaser's Chief Financial Officer (in his or her capacity as such), setting forth Purchaser's calculation of the Company Net Working Capital as of the close of business on the Closing Date and the amount by which Company Net Working Capital as calculated by Purchaser is less than the Company Net Working Capital set forth in the Company Net Working Capital Certificate. Any Purchaser NWC Certificate shall be prepared in US Dollars and in accordance with GAAP consistent with the Company Financial Statements and in accordance with Schedule 1.5(a) and shall take into account any information not available to the parties at the time the Company Net Working Capital Certificate was delivered. If Purchaser fails to deliver the NWC Certificate within 90 days after the Closing, then the Company Net Working Capital reflected in the Company Net Working Capital Certificate shall be deemed as the final Company Net Working Capital.

(c) Following the delivery by Purchaser of the Purchaser NWC Certificate, the Shareholders' Agent and his representatives shall be given such access as they may reasonably require during Purchaser's normal business hours (or such other times as the parties may agree) and upon reasonable notice to those books and records of the Company in the possession of, and/or under the control of, Purchaser, and access to such personnel or representatives of the Company and Purchaser as they may reasonably require for the purposes of resolving any disputes or responding to any matters or inquiries raised concerning the Purchaser NWC Certificate and/or the calculation of the Company Net Working Capital.

(d) The Shareholders' Agent may object to the Company Net Working Capital calculations set forth in the Purchaser NWC Certificate by providing written notice of such objection to Purchaser within 20 Business Days after Purchaser's delivery of the Purchaser NWC Certificate (the "***Notice of Objection***").

(e) If the Shareholders' Agent timely provides the Notice of Objection, then the parties shall confer in good faith for a period of up to 10 Business Days following Purchaser's timely receipt of the Notice of Objection, in an attempt to resolve any disagreement, and any resolution by them shall be in writing and shall be final and binding.

(f) If, after such 10 Business Day period, the Shareholders' Agent and Purchaser cannot resolve any such disagreement, then the parties shall engage an auditing firm acceptable to both the Shareholders' Agent and Purchaser (the "***Reviewing Accountant***") to review the NWC Calculations. Each of the parties to this Agreement shall, and shall cause their respective officers, directors, employees and representatives to, provide full cooperation to the Reviewing Accountant. The Reviewing Accountant shall (i) act in its capacity as an expert and not as an arbitrator, (ii) consider only those matters as to which there is a dispute between the parties and (iii) be instructed to reach its conclusions regarding any such dispute within 30 days after its appointment and provide a written explanation of its decision. In the event that Purchaser and the Shareholders' Agent shall submit any dispute to the Reviewing Accountant, each such party may submit a "position paper" to the Reviewing Accountant setting forth the position of such party with respect to such dispute, to be considered by such Reviewing Accountant as it deems fit. The Reviewing Accountant shall promptly determine the Company Net Working Capital and such determination shall be final and binding on the parties.

(g) If the Company Net Working Capital, as determined pursuant to Section 1.5(b) (in the event there is no Notice of Objection), Section 1.5(e) or Section 1.5(f), as the case may be, is less than the Working Capital Target (such difference, the *"**Negative Adjustment Amount**"*), then the amount of the Negative Adjustment Amount shall be offset against the Deferred Payment or against the payment required by Section 1.5(h) below, if any, except to the extent that any payment of Aggregate Consideration already made by Purchaser was reduced by all or a portion of the Working Capital Shortfall.

(h) Without derogating from the right of the Purchaser to receive the Negative Adjustment Amount pursuant to Section (g), Purchaser shall pay the *lower* of (i) the amount by which the Company Net Working Capital is higher than the Cash as of the Closing Date, and (ii) the Google Payments actually received by the Company following the Closing. The Purchaser shall transfer such payment to the Paying Agent within 3 Business Days of final determination of the Company Net Working Capital under this Section 1.5 and shall instruct the Paying Agent to distribute such amounts to the Company Securityholders in accordance with the provisions of the Paying Agent Agreement and this Agreement, in accordance with each Company Securityholder's Pro Rata Share of such amount, less applicable withholdings. Notwithstanding the foregoing, any Cash Consideration and Option Amount payable pursuant this Section 1.5(h) to Company Shareholders and Company Optionholders, as applicable, holding Company Shares and Company Options pursuant to Section 102(b) shall be paid to the 102 Trustee.

(i) If a Reviewing Accountant is engaged resulting in a Negative Adjustment Amount, then the fees and expenses of the Reviewing Accountant shall be borne by the Company Securityholders by way of reduction of the Deferred Payment. Otherwise, such fees and expenses shall be borne by Purchaser.

(j) Notwithstanding the foregoing, if the Deferred Payment shall be due and payable pursuant to Section 1.3(b) hereof prior to the final determination of Company Net Working Capital pursuant to this Section 1.5, then any amounts described herein as reducing the Deferred Payment, as reasonably estimated by Purchaser, may be withheld from the Deferred Payment by Purchaser pending the final determination of Company Net Working Capital.

1.6 Contingent Payment

(a) The Contingent Payment shall be subject to the following conditions: (i) if the Higher Milestone (as defined in Schedule 1.6) shall have been met, then Purchaser shall make a cash payment for the benefit of the Company Securityholders in the amount of seven million five hundred thousand U.S. Dollars ($7,500,000) (the "***Higher Milestone Payment***"), and (ii) if the Higher Milestone shall not have been met, then the Contingent Payment shall be comprised of the following two components, which shall be independent of one another: (1) if the Lower Milestone (as defined in Schedule 1.6) is met, then Purchaser shall make a cash payment for the benefit of the Company Securityholders in the amount of two million five hundred thousand U.S. Dollars ($2,500,000) (the "***Lower Milestone Payment***"); and (2) if there shall have been no Applicable Change (as defined in Schedule 1.6), then Purchaser shall make a cash payment for the benefit of the Company Securityholders in the amount of five million U.S. Dollars ($5,000,000) (the "***Applicable Change Payment***"). For the avoidance of doubt, if there has been an Applicable Change, then Purchaser shall not be obligated to make the Applicable Change Payment. The Contingent Payment may be reduced by the applicable Set-off Amount pursuant to ARTICLE 9. All such payments shall be made by Purchaser to the Paying Agent and paid by the Paying Agent to the Company Securityholders in accordance with the terms of the Paying Agent Agreement.

(b) In the event that the audited consolidated statements of income of Purchaser, prepared in accordance with GAAP consistently with past practice, for the year ended December 31, 2013 (the "***2013 Financial Statements***") shall not have been approved by Purchaser's board of directors prior to the Contingent Payment Date, then (i) if there shall have been no Applicable Change prior to the Contingent Payment Date, then the Applicable Change Payment shall be paid by Purchaser to the Paying Agent on the Contingent Payment Date and shall be distributed to the Company Securityholders pursuant to Section 1.3(c) and (ii) if either the Lower Milestone or the Higher Milestone (each, a "***Milestone***") is reasonably likely to be satisfied (based on Purchaser's internal financial information presented to Purchaser's board of directors), Purchaser shall pay either the Higher Milestone Payment (less the amount of the Applicable Change Payment, if applicable) or the Lower Milestone Payment, as applicable (each, a "***Milestone Payment***") to the Paying Agent, and shall instruct the Paying Agent to distribute the applicable Milestone Payment to the Company Securityholders. Promptly following the approval of the 2013 Financial Statements, Purchaser and the Securityholders shall conduct a final accounting to implement the terms of Section 1.6(a), to the extent necessary.

1.7 Waiver and Release of Claims.

(a) Effective for all purposes as of the Closing, each Company Shareholder acknowledges and agrees on behalf of itself and each of its agents, trustees, beneficiaries, directors, officers, affiliates, subsidiaries, estate, successors and assigns (each, a "***Releasing Party***") that each hereby releases and forever discharges the Company, each Company Securityholder and Purchaser (each a "***Beneficiary***") and each of such Beneficiary's respective subsidiaries, affiliates, directors, officers, employees, representatives, agents, members, shareholders, successors, predecessors and assigns (each, a "***Released Party***" and collectively, the "***Released Parties***") from any and all Shareholder Claims such Releasing Party may have or assert against any of the Released Parties, from the beginning of time through the time of the Closing, in each case whether known or unknown, or whether or not the facts that could give rise to or support a Shareholder Claim are known or should have been known, except with regard to its rights pursuant to this Agreement and the transactions contemplated hereby. In this Agreement a "***Shareholder Claim***" shall mean: (i) any claim or right to receive any Company Shares or Company Options other than the Company Shares or Company Options set forth next to such Person's name on the Signature Page of this Agreement and on the Signing Spreadsheet, as updated by the Closing Spreadsheet and such Person's Closing Allocation Certificate; (ii) any claim or right to receive any portion of the Aggregate Consideration pursuant to the terms of this Agreement (or a different allocation between cash and Purchaser Ordinary Shares, including the possibility to receive only cash without any Purchaser Ordinary Shares), other than as specifically set forth in the Closing Spreadsheet and in such Person's Closing Allocation Certificate and applicable to such Company Shareholder; (iii) any claim with respect to the authority or enforceability to enter into this Agreement, the Share Purchase or any of the transactions contemplated hereby; or (iv) any rights, licenses, claims or interest whatsoever, including without limitation, to royalties, fees or other compensation with respect to any Intellectual Property developed for the Company or the Israeli Subsidiary.

(b) Each Company Shareholder hereby confirms, acknowledges, represents and warrants that he, she or it: (A) (i) is the holder of the number of Company Shares and/or Company Options set forth next to such Person's name on the Signature Page of this Agreement and on the Signing Spreadsheet, as updated by the Closing Spreadsheet and in such Person's Closing Allocation Certificate; (ii) other than the number and class of Company Shares and/or Company Options set forth next to such Person's name on the Signature Page of this Agreement and on the Signing Spreadsheet, as updated by the Closing Spreadsheet and in such Person's Closing Allocation Certificate, is not entitled to any additional Company Shares or Company Options or any other form of payment or equity securities including, shares, options, warrants or any other convertible security, or right to acquire shares, options or warrants of or any other convertible security into Company Share Capital; (iii) waives any right to receive any additional Company Shares or Company Options (as a result of any anti-dilution rights, preemptive rights, conversion rights (of any of the Company Shares which are outstanding as of the Agreement Date and the Closing Date), rights of first offer, co-sale and no-sale rights, any other participation, first refusal or similar rights, rights to any liquidation preference (except for payment as part of the Aggregate Consideration as set forth in the Signing Spreadsheet, as updated by the Closing Spreadsheet), redemption rights and rights of notice of the Share Purchase, including but not limited to those set forth in the Charter Documents, any adjustment of the conversion price of any preferred share whatsoever or otherwise); (iv) fully, finally, irrevocably and forever waives any right to convert any of its Company Shares or Company Options into any other class or series of Company Shares presently and through the Closing, except as set forth next to such Person's name on the Signature Page of this Agreement and on the Signing Spreadsheet, as updated by the Closing Spreadsheet and on such Person's Closing Allocation Certificate; (B) (i) examined the Signing Spreadsheet, the Closing Spreadsheet and such Person's Closing Allocation Certificate and is entitled only to the distribution set forth in the Signing Spreadsheet, as updated by the Closing Spreadsheet and in such Person's Closing Allocation Certificate (subject to any adjustments contemplated in this Agreement); (ii) waives any right to receive consideration other than as set forth in the Signing Spreadsheet, as updated by the Closing Spreadsheet and such Person's Closing Allocation Certificate; (C) for as long as this Agreement is in force agrees not to sell, transfer, assign or convert any of its Company Shares and/or Company Options, or subject such Company Shares and/or Company Options to any Encumbrances, except pursuant to a transfer request of Company Shares provided to the Company and Purchaser prior to the Agreement Date; and (D) has not heretofore assigned or transferred, or purported to have assigned or transferred, to any corporation (or any other legal entity) or person whatsoever, any claim, debt, liability, demand, obligation, cost, expense, action or cause of action herein released.

(c) Each Company Shareholder holding Company Shares subject to the provisions of Section 102 hereby confirms, acknowledges, represents and warrants that: (i) the payments made to such Company Shareholder for his Company Shares and/or Company Options pursuant to this Agreement are outside of the scope of such Company Shareholder's employment and do not establish an employment relationship between such Company Shareholder and Purchaser; (ii) such Company Shareholder is responsible for any income Tax payments or other mandatory charges due with respect to the payments made to such Company Shareholder for his Company Shares and/or Company Options pursuant to this Agreement, under Israeli Tax law or any other federal, state or local Tax law ("***Tax Liability***"); (iii) to the extent withholding is required under Israeli Tax law or any other federal, state or local Tax law for the Tax Liability, such liability may be withheld from any payments made to such Company Shareholder for his Company Shares and/or Company Options pursuant to this Agreement; (iv) payments made for such Company Shareholder's Company Shares and/or Company Options subject to the provisions of Section 102(b) pursuant to this Agreement may have adverse Tax consequences; (v) neither Purchaser or any of its affiliates nor the Company or the Israeli Subsidiary take any responsibility or liability with respect to the loss of Tax qualified status of such Company Shareholder's Company Shares and/or Company Options under Section 102(b) of the Israeli Income Tax Ordinance (except as resulting from an act or omission of the Company or the Israeli Subsidiary with respect to grants of Company Options made by the Company or the Israeli Subsidiary under the current Company Employee Plan, to individuals who were either employees or directors on the date of grant); (vi) any payments with respect to such Company Shareholder's Company Shares and/or Company Options granted under Section 102 of the Israeli Income Tax Ordinance and that are held by the applicable 102 Trustee shall be paid to the 102 Trustee, who shall make such payments in accordance with the Israeli Options Tax Ruling, if obtained, and the Israeli Income Tax Ordinance; and (vii) such Company Shareholder has been given the opportunity and has been encouraged to consult with such Company Shareholder's own attorney and tax adviser prior to signing this Agreement.

(d) Each Company Shareholder acknowledges that such Company Shareholder may hereafter discover facts in addition to or different from those which such Company Shareholder now knows or believes to be true with respect to the subject matter of this Agreement, but it is such Company Shareholder's intention to fully and finally and forever settle and release any and all matters, disputes and differences, known or unknown, suspected and unsuspected, which do now exist or may exist or heretofore have existed between any Releasing Party and any Released Party with respect to the subject matter of this Agreement. In furtherance of this intention, the releases herein shall be and remain in effect as full and complete general releases notwithstanding the discovery or existence of any such additional or different facts.

(e) Each Company Shareholder, on behalf of each Releasing Party, further covenants and agrees that such Releasing Party has not heretofore sold, transferred, hypothecated, conveyed or assigned, and shall not hereafter sue any Released Party upon, any Shareholder Claim released under this Section 1.7, and that each Releasing Party shall indemnify and hold harmless the Released Parties against any loss or liability on account of any actions brought by such Releasing Party or such Releasing Party's assigns or prosecuted on behalf of such Releasing Party and relating to any Shareholder Claim released under this Section 1.6.

(f) Notwithstanding anything in this Section 1.7, the foregoing releases and covenants shall not apply to any claims (i) relating to Purchaser's failure to pay and/or deliver the Aggregate Consideration in accordance with this Agreement; (ii) relating to Purchaser's failure to perform any of its obligations, undertakings or covenants set forth in this Agreement (including any exhibit hereto); (iii) relating to any employment payment, including salary, bonuses, accrued vacation, any other employee compensation and/or benefits, unreimbursed expenses and consulting fees and related benefits not relating to such Company Securityholders' Company Shares and/or Company Options; (iv) relating to or arising from any commercial relationship such Company Shareholder may have with any of the Released Parties; (v) for indemnity by officers, employees and directors of the Company in their capacity as such in accordance with Section 6.15; and (vi) of any Company Shareholder as of the Record Date to receive its applicable portion of the Special Cash Dividend in accordance with Section 6.18.

(g) Notwithstanding anything to the contrary: (i) the foregoing release is conditioned upon the consummation of the Closing and shall become null and void, and shall have no effect whatsoever, without any action on the part of any person or entity, upon termination of this Agreement in accordance with ARTICLE 8; and (ii) should any provision of this release be found, held, declared, determined, or deemed by any court of competent jurisdiction to be void, illegal, invalid or unenforceable under any applicable statute or controlling law, the legality, validity, and enforceability of the remaining provisions will not be affected and the illegal, invalid, or unenforceable provision will be deemed not to be a part of this Release.

1.8 Certain Taxes. All transfer, documentary, sales, use, stamp, registration and other such Taxes and fees (including any penalties and interest) imposed on a party to this Agreement in connection with this Agreement shall be paid by the respective party when due, and each such party, at its own expense, file all necessary Tax Returns and other documentation with respect to all such transfer, documentary, sales, use, stamp, registration and other Taxes and fees.

ARTICLE 2
Representations and Warranties of the Company and the Israeli Subsidiary

Subject to the disclosures set forth in the disclosure letter of the Company and the Israeli Subsidiary delivered to Purchaser concurrently with the parties' execution of this Agreement (the "***Company Disclosure Letter***") (each of which disclosures, in order to be effective, shall clearly indicate the Section and, if applicable, the Subsection of this ARTICLE 2 to which it relates (unless and only to the extent the relevance to other representations and warranties is readily apparent from the actual text of the disclosures), and each of which disclosures shall also be deemed to be representations and warranties made by the Company and the Israeli Subsidiary to Purchaser under this ARTICLE 2), the Company and the Israeli Subsidiary, jointly and severally, represent and warrant to Purchaser, as of the Agreement Date, as follows:

2.1 Organization, Standing and Power.

(a) The Company is a corporation duly organized, validly existing and in good standing under the laws of Belize. The Company has the requisite corporate power and authority to own, lease, license and use its properties and assets and to carry on its business as now being conducted and as currently proposed to be conducted and is duly qualified, licensed or admitted to do business and, in jurisdictions where such concept is recognized, is in good standing in each jurisdiction in which the Company is qualified to do business as a foreign corporation and in each jurisdiction in which the ownership, leasing, licensing or use of its assets and properties, or the conduct or nature of its business, makes such qualification, licensing or admission necessary. Schedule2.1(a) of the Company Disclosure Letter sets forth each jurisdiction where the Company is so qualified, licensed or admitted to do business and separately lists each other state, province or country in which the Company owns, uses, licenses or leases its assets and properties, or conducts business or has employees or engages independent contractors. The Company has delivered a true and correct copy of the governing documents of the Company, as amended to date, to Purchaser. The Company is not in violation of any of the provisions of its governing documents. Since incorporation, all of the Company's directors and officers were duly appointed in accordance with applicable law.

(b) The Israeli Subsidiary, incorporated in Israel, is a company duly organized and validly existing under the laws of the State of Israel, and is and at all times has been the only entity that is a Subsidiary. The Israeli Subsidiary has the requisite corporate power to own its properties and to carry on its business as now being conducted and as currently proposed to be conducted and is duly qualified to do business and, in jurisdictions where such concept is recognized, is in good standing in each jurisdiction in which the Israeli Subsidiary is qualified to do business as a foreign corporation and in each jurisdiction in which the ownership, leasing, licensing or use of its assets and properties, or the conduct or nature of its business, makes such qualification, licensing or admission necessary. The Company has delivered a true, correct and complete copy of the governing documents of the Israeli Subsidiary, as amended to date, to Purchaser. The Israeli Subsidiary is not in violation of any of the provisions of its governing documents. Except as disclosed in 2.1(b)(i) of the Company Disclosure Letter, the Company does not directly or indirectly own, and has not since the Company's inception directly or indirectly owned, any equity or similar interest in, or any interest convertible or exchangeable or exercisable for, any equity or similar interest in, any corporation, partnership, joint venture or other business association or entity. All the outstanding share capital of the Israeli Subsidiary and any interest disclosed in Schedule 2.1(b)(i) of the Company Disclosure Letter is owned directly or indirectly by the Company free and clear of all Encumbrances and all claims or charges of any kind, and is validly issued, fully paid up and nonassessable. Schedule 2.1(b)(ii) of the Company Disclosure Letter sets forth each jurisdiction where the Israeli Subsidiary is so qualified, licensed or admitted to do business and separately lists each other state, province or country in which the Israeli Subsidiary owns, uses, licenses or leases its assets and properties, or conducts business or has employees or engages independent contractors. The Israeli Subsidiary does not have ownership of any Subsidiary and there are no plans to establish a new Subsidiary. Since incorporation, all of the Israeli Subsidiary's directors and officers were duly appointed in accordance with applicable law.

(c) Schedule 2.1(c) of the Company Disclosure Letter sets forth a true, correct and complete list of: (i) the names of the members of the Company Board of Directors (or similar body) and any committee thereof; (ii) the names of the members of the board of directors of the Israeli Subsidiary (or similar body) and any committee thereof; and (iii) the names and titles of the officers of the Company and the Israeli Subsidiary.

(d) Neither the Company nor the Israeli Subsidiary has conducted any business under or otherwise used, for any purpose or in any jurisdiction, any fictitious name, assumed name, business name or other name, other than its corporate name as set forth in this Agreement.

2.2 Capital Structure.

(a) The authorized share capital of the Company consists solely of 7,000,000 shares, (i) 4,150,000 of which are designated as Company Ordinary Shares, (ii) 1,050,000 of which are designated as Company Series A Preferred Shares and (iii) 1,800,000 of which are designated as Company Series B Preferred Shares. A total of (i) 275,826 Company Ordinary Shares, (ii) 780,900 Company Series A Preferred Shares and (iii) 1,395,900 Company Series B Preferred Shares, are issued and outstanding as of the Agreement Date. The Company holds no treasury shares. There are no other issued and/or outstanding shares of share capital or other securities of the Company or the Israeli Subsidiary and no outstanding commitments or Contracts that obligate the Company or the Israeli Subsidiary to issue any shares of share capital or other securities of the Company or the Israeli Subsidiary or options or rights to acquire any Company Share Capital or Israeli Subsidiary Share Capital under any circumstances other than pursuant to the exercise of outstanding Company Options under the Company Option Plans and options to purchase Series A Preferred Shares and Series B Preferred Shares, in each case as set forth on the Signing Spreadsheet and as updated in the Closing Spreadsheet. Schedule 2.2(a) of the Company Disclosure Letter accurately sets forth, as of the Agreement Date, the name of each Person that is the registered owner of any Company Shares and the number of such shares so owned by such Person, and the number of Company Ordinary Shares that would be owned by such Person assuming conversion of all Company Shares so owned by such Person giving effect to all anti-dilution and similar adjustments. To the Company's knowledge, the number of such shares set forth as being so owned by such Person constitutes the entire beneficial interest of such person in the issued and outstanding share capital or voting securities of the Company. All issued and outstanding shares of Company Share Capital and Israeli Subsidiary Share Capital are duly authorized, validly issued in compliance with all applicable laws, fully paid and non-assessable and are free of any Encumbrances, preemptive rights, rights of first refusal or "put" or "call" rights created by statute, the Charter Documents or any Contract to which the Company or the Israeli Subsidiary is a party or by which the Company or the Israeli Subsidiary is bound and, if transferred by a Company shareholder or a Company optionholder, were transferred in accordance with any Legal Requirement or Contract applicable to the Company, right of first refusal or similar right or limitation, including those in the Charter Documents, and, to the Company's knowledge, in accordance with any Legal Requirement or Contract applicable to the Company shareholder or Company optionholder. Neither the Company nor the Israeli Subsidiary has ever declared or paid any dividends on any shares of Company Share Capital or Israeli Subsidiary Share Capital. There is no liability for dividends accrued and unpaid by the Company or the Israeli Subsidiary. Neither the Company nor the Israeli Subsidiary is under any obligation to register under applicable Israeli securities law any shares of Company Share Capital or Israeli Subsidiary Share Capital or any other securities of the Company or the Israeli Subsidiary, whether currently outstanding or that may subsequently be issued. Except as set forth on Schedule 2.2(a) of the Company Disclosure Letter, each Company Preferred Share is convertible into Company Ordinary Shares on a one-for-one basis. All issued and outstanding shares of Company Share Capital, all Company Options, and Israeli Subsidiary Share Capital were issued in compliance with all applicable Legal Requirements and all requirements set forth in all applicable Charter Documents and Contracts, all of which were provided to Purchaser. All transfers of Company Securities since incorporation were to one of the Company Shareholders set forth on the Signing Spreadsheet.

(b) As of the Agreement Date, the Company has reserved 560,563 Company Ordinary Shares for issuance to employees, directors and consultants of the Company or the Israeli Subsidiary pursuant to the Company Option Plans, of which 416,563 Company Ordinary Shares are subject to outstanding and unexercised Company Options, and 144,000 Company Ordinary Shares remain available for issuance thereunder. Schedule 2.2(b) of the Company Disclosure Letter sets forth, as of the Agreement Date, a true, correct and complete list of all holders of outstanding Company Options (including exercised Company Options), whether or not granted under the Company Option Plans, including the number of Company Ordinary Shares subject to each Company Option, the date of grant, the vesting schedule (and the terms of any acceleration thereof), the exercise price per share, whether each such Company Option was granted pursuant to Section 3(i) of the Israeli Income Tax Ordinance or Section 102(b) or Section 102(c) (or the corresponding status under applicable non-Israeli Tax law) and specifying the Section and subsection of the Israeli Income Tax Ordinance pursuant to which such Company Option was granted, the date on which such Company Option expires, the Company Option Plan from which such Company Option was granted, the date of commencement of the two year holding period with the 102 Trustee, if granted under Section 102(b) and whether the holder thereof is an employee, director or consultant of the Company or the Israeli Subsidiary (and the entity receiving services from such person), such person's holding percentage in the Company (including on a fully diluted basis if it exceeds 5% of the outstanding share capital of the Company), whether such person has relocated from or to Israel and the date on which the grant of such securities was approved by the Company Board of Directors, Israeli Subsidiary Board of Directors, shareholders of the Company and/or the Israeli Subsidiary, as applicable, all as required under applicable Legal Requirements. In addition, Schedule 2.2(b) of the Company Disclosure Letter indicates which holders of outstanding Company Options that are held by Persons that are not employees of the Company (including non-employee directors, consultants, advisory board members, vendors, service providers or other similar persons), including a description of the relationship between each such Person and the Company. Correct and complete copies of each Company Option Plan, all agreements and instruments relating to or issued under each Company Option Plan (including executed copies of all Contracts relating to each Company Option and the shares of Company Share Capital purchased under such option) have been provided to Purchaser's counsel, and such plans and Contracts have not been amended, modified or supplemented since being provided to Purchaser's counsel, and there are no agreements, understandings or commitments to amend, modify or supplement such plans or Contracts in any case from those provided to Purchaser's counsel. All tax rulings, opinions, correspondence and filings with the Israeli Tax Authority relating to the Company Option Plan and any award thereunder have been provided to Purchaser's counsel. The terms of the Company Option Plans permit the acceleration, cancellation and exchange of Company Options to purchase Company Ordinary Shares as provided in this Agreement, without the consent or approval of the holders of such securities, the Company Shareholders, or otherwise. Other than as provided in this Agreement, no other outstanding Company Options, whether under the Company Option Plans or otherwise, will be accelerated in connection with the Share Purchase. A detailed capitalization table showing the numbers of outstanding shares or options held by each Company Shareholder and Company Optionholder, and the applicable vesting schedule, if any, is set forth in the Signing Spreadsheet. Each grant of Company Options was validly issued and properly approved in compliance with all applicable Legal Requirements. All Company Shares issued or issuable upon exercise of Company Options will be duly authorized, validly issued, fully paid and non-assessable and free of any Encumbrances, preemptive rights, rights of first refusal or "put" or "call" rights created by any Legal Requirements or any Contract to which the Company or the Israeli Subsidiary is a party or by which the Company or the Israeli Subsidiary is bound, other than as set forth in the Charter Documents and the Company Option Plan.

(c) Other than as set forth on Schedules 2.2(a) and 2.2(b) of the Company Disclosure Letter, no Person has any right to acquire any shares of Company Share Capital or any Company Options or other rights to purchase shares of Company Share Capital or other securities of the Company, from the Company or to the knowledge of the Company, from any Company Securityholder.

(d) No bonds, debentures, notes or other Indebtedness of the Company or the Israeli Subsidiary (i) granting its holder the right to vote on any matters on which any Company Securityholder or Israeli Subsidiary Securityholder may vote (or which is convertible into, or exchangeable for, securities having such right) or (ii) the value of which is any way based upon or derived from capital or voting stock of the Company or the Israeli Subsidiary, is issued or outstanding as of the Agreement Date (collectively, "***Company Voting Debt***").

(e) Except for the Company Options described in Schedule 2.2(b) of the Company Disclosure Letter, there are no options, warrants, calls, rights or Contracts of any character to which the Company is a party or by which it is bound obligating the Company to issue, deliver, sell, repurchase or redeem, or cause to be issued, delivered, sold, repurchased or redeemed, any shares of any Company Share Capital, Company Options or other rights to purchase shares of Company Share Capital or other securities of the Company, or any Company Voting Debt, or obligating the Company to grant, extend, accelerate the vesting and/or repurchase rights of, change the price of, or otherwise amend or enter into any such Company Option, call, right or Contract. All shares of Company Share Capital ever repurchased or redeemed by the Company were repurchased or redeemed in compliance with: (i) all applicable law; and (ii) all requirements set forth in all applicable Charter Documents and Contracts. There are no Contracts relating to voting, purchase, sale or transfer of any Company Share Capital (i) between or among the Company and any Company Securityholder, other than written contracts granting the Company the right to purchase unvested shares upon termination of employment or service, and (ii) to the knowledge of the Company, between or among any of the Company Securityholders. Except as set forth in Schedule 2.2(e), neither the Company Option Plans nor any Contract of any character to which the Company is a party to or by which the Company is bound relating to any Company Options requires or otherwise provides for any accelerated vesting of any Company Options in connection with the Share Purchase or any other transaction contemplated by this Agreement or upon termination of employment or service with the Company or with Purchaser or any Israeli Subsidiary, or any other event, whether before, upon or following the Share Purchase or otherwise.

(f) 100% of the issued and outstanding Company Share Capital, on an actual basis and on an as-converted (or as-exercised) basis, taking into consideration any and all convertible or exchangeable securities and other interests in the Company, is owned of record, and to the knowledge of the Company, beneficially, by the Company Securityholders as set forth in the Signing Spreadsheet, which includes the class of security and address of each such holder, and will be owned immediately following the Closing by Purchaser, to the knowledge of the Company, free and clear of all Encumbrances other than Encumbrances created by Purchaser.

(g) The Signing Spreadsheet accurately sets forth as of the date hereof, and the Closing Spreadsheet will accurately set forth, as of the Closing, the name of each Person that is the registered owner of any shares of Company Share Capital and/or Company Options and the number and kind of such shares so owned, or subject to Company Options so owned, by such Person. The number of such shares set forth as being so owned, or subject to Company Options so owned, by such Person will constitute the entire interest of such person in the issued and outstanding share capital, voting securities or other securities of the Company. As of the date hereof, no other Person not disclosed in the Signing Spreadsheet, and as of the Closing, no other Person not disclosed in the Closing Spreadsheet will have a right to acquire any shares of Company Share Capital and/or Company Options from the Company. In addition, the shares of Company Share Capital and/or Company Options disclosed in the Signing Spreadsheet is, as of the date hereof, and in the Closing Spreadsheet will be, as of the Closing, free and clear of any Encumbrances created by any Contract to which the Company is a party or by which it is bound.

2.3 Authority; Noncontravention.

(a) The Company has all requisite corporate power and authority to enter into this Agreement and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of the Company. This Agreement has been duly executed and delivered by the Company and constitutes the valid and binding obligation of the Company enforceable against the Company in accordance with its terms subject only to the effect, if any, of (i) applicable bankruptcy and other similar laws affecting the rights of creditors generally and (ii) rules of law governing specific performance, injunctive relief and other equitable remedies. The Company Board of Directors, by resolutions duly adopted (and not thereafter modified or rescinded) by the unanimous vote of the Company Board of Directors, has approved and adopted this Agreement and approved the Share Purchase and the other transactions contemplated hereby and determined that this Agreement and the terms and conditions of the Share Purchase and this Agreement are advisable, fair to and in the best interests of the Company, the Israeli Subsidiary and the Company Shareholders, and directed that the adoption of this Agreement be submitted to the Company Shareholders for consideration and unanimously recommended that all of the Company Shareholders adopt this Agreement, which they adopted unanimously prior to the Agreement Date.

(b) The execution and delivery of this Agreement by the Company does not, and the consummation of the transactions contemplated hereby will not, (i) result in the creation of any Encumbrance on any of the properties or assets of the Company or the Israeli Subsidiary or any of the shares of Company Share Capital or the Israeli Share Capital, (ii) conflict with, or result in any violation of or default under (with or without notice or lapse of time, or both), or give rise to a right of termination, cancellation or acceleration of any obligation or loss of any benefit under, or require any consent, approval or waiver from any Person pursuant to, (A) any provision of the Charter Documents or any resolution adopted by the Company Shareholders, Israeli Subsidiary Shareholder or Company Board of Directors or any committee thereof or the Israeli Subsidiary board of directors, (B) any Contract of the Company or the Israeli Subsidiary or any Contract applicable to any of its properties or assets, or (C) any Legal Requirements applicable to the Company or the Israeli Subsidiary or any of its properties or assets, or (iii) contravene, conflict with or result in a violation of, or give any Governmental Entity or other Person the right to challenge any of the transactions contemplated by this Agreement or to exercise any remedy or obtain any relief under, applicable law or any order, writ, injunction, judgment or decree to which the Company or any of the assets owned or used by the Company, is subject.

(c) No consent, approval, order or authorization of, or registration, declaration or filing with, any Governmental Entity or any other Person is required by or with respect to the Company in connection with the execution and delivery of this Agreement or the consummation of the transactions contemplated hereby, except for such consents, authorizations, filings, approvals, notices and registrations which, if not obtained or made, would not impair the Company's ability to consummate the Share Purchase or to perform its obligations under this Agreement and would not prevent, alter or delay any of the transactions contemplated by this Agreement. The execution and delivery of this Agreement by the Company does not, and the consummation of the transactions contemplated hereby will not contravene, conflict with or result in a violation of any of the terms or requirements of, or give any Governmental Entity the right to revoke, withdraw, suspend, cancel, terminate or modify, any authorization from a Governmental Entity that is held by the Company or that otherwise relates to the Company's Business or to any of the assets owned or used by the Company.

2.4 Company Financial Statements.

(a) The Company has delivered to Purchaser, in U.S. Dollars in accordance with GAAP, (i) the audited financial statements of the Israeli Subsidiary for each of the two years ended December 31, 2011 and the audited balance sheet of the Israeli Subsidiary as of the end of December 31, 2009, together with the audit opinion thereon of Kost, Forer, Gabbay and Kasierer (a member of Ernst & Young Global) (the "***Auditors***"), (ii) the interim unaudited financial statements of the Israeli Subsidiary for the six-month periods ended June 30, 2011 and 2012, and (iii) internally prepared (by the certified accountant of the Israeli Subsidiary), balance sheet and income statements of the Israeli Subsidiary as of September 30, 2012, and the three and nine-month periods then ended ("***Q3 Statements***") (collectively, the "***Company Financial Statements***"), which are included as Schedule 2.4(a) of the Company Disclosure Letter. The Company Financial Statements (i) are derived from and in accordance with the books and records of the Company and the Israeli Subsidiary, (ii) complied as to form with applicable accounting requirements with respect thereto as of their respective dates, (iii) have been prepared in U.S. Dollars, and (iv) are in accordance with GAAP applied on a consistent basis throughout the periods indicated (provided that the unaudited interim period financial statements and the Q3 Statements are subject to normal recurring year-end audit adjustments) and consistent with each other, (iv) fairly and accurately present the financial condition of the Company and the Israeli Subsidiary at the dates therein indicated and the results of operations and cash flows of the Company and the Israeli Subsidiary for the periods therein specified, and (v) are true, complete and correct in all material respects. The Company Financial Statements have been kept accurately in the ordinary course of business consistent with applicable law, the transactions entered therein represent bona fide transactions, and the revenues, expenses, assets and liabilities of the Company and the Israeli Subsidiary have been properly recorded therein. Since its inception, the Company (excluding the Israeli Subsidiary) has not carried out any business activities. Neither the Company nor any of its subsidiaries has "off-balance sheet arrangements" (as defined in Item 303(a)(4)(ii) of Regulation S-K under the Exchange Act).

(b) Except as set forth in Schedule 2.4(b) of the Company Disclosure Letter, neither the Company nor the Israeli Subsidiary has any Liabilities of any nature other than (i) those set forth or adequately provided for in the Balance Sheet included in the Company Financial Statements as of December 31, 2011 (the "***Company Balance Sheet***"); (ii) those incurred in the conduct of the Company's and the Israeli Subsidiary's business since December 31, 2011 (the "***Company Balance Sheet Date***") in the ordinary course, consistent with past practice; (iii) obligations set forth on the face of the Material Contracts (other than Liabilities resulting from the breach or default of such Material Contract); and (iv) as disclosed in the interim financial statements. Without limiting the generality of the foregoing, neither the Company nor the Israeli Subsidiary has ever guaranteed any debt or other obligation of any other Person.

(c) All Indebtedness of the Company and the Israeli Subsidiary ("***Company Debt***") may be prepaid at the Closing without penalty under the terms of the Contracts governing such Company Debt. Schedule 2.4(c) of the Company Disclosure Letter accurately lists all Company Debt as of the Agreement Date, including, for each item of Company Debt, the agreement governing the Company Debt and the interest rate, maturity date and any assets or properties securing such Company Debt.

(d) Schedule 2.4(d) of the Company Disclosure Letter sets forth the names and locations of all banks and other financial institutions at which the Company or the Israeli Subsidiary maintains accounts, as well as the current balances in such accounts, and the names of all persons authorized to make withdrawals therefrom.

(e) Schedule 2.4(e) of the Company Disclosure Letter sets forth the amounts and an accurate aging of the Company's and the Israeli Subsidiary's accounts receivable in the aggregate and by customer, and indicates the amounts of allowances for doubtful accounts, in each case as of September 30, 2012. The accounts receivable shown on Schedule 2.4(e) of the Company Disclosure Letter arose in the ordinary course of business, consistent with past practices, represented bona fide claims against debtors for sales and other charges and have been collected or are collectible in the book amounts thereof within 60 days of the Agreement Date, less an amount not in excess of the allowance for doubtful accounts provided for therein. None of the accounts receivable of the Company or the Israeli Subsidiary, is subject to any claim of offset, recoupment, setoff or counter-claim, and the Company has no knowledge of any specific facts or circumstances (whether asserted or unasserted) that could give rise to any such claim. None of the accounts receivable of the Company or the Israeli Subsidiary is contingent upon the performance by the Company or the Israeli Subsidiary of any obligation or Contract and, other than in accordance with the provisions of the Contracts related to such accounts receivable, no agreement for deduction or discount has been made with respect to any of such accounts receivable.

(f) Schedule 2.4(f) of the Company Disclosure Letter sets forth the amount of the Company's and the Israeli Subsidiary's cash, cash equivalents and marketable securities, as determined in accordance with GAAP consistently applied (the "***Company Cash***") as of the Agreement Date (the "***Company Cash Statement***").

(g) Neither the Company, the Israeli Subsidiary, nor, to the knowledge of the Company, any director, officer, employee, auditor, accountant or representative of the Company or the Israeli Subsidiary, has received or otherwise had or obtained knowledge of any complaint, allegation, assertion or claim, whether made in writing or made orally to any director, executive officer, or inside legal counsel or, regarding any deficiency in the accounting or auditing practices, procedures, methodologies or methods of the Company or the Israeli Subsidiary or their respective internal accounting controls, including any complaint, allegation, assertion or claim that the Company or the Israeli Subsidiary has engaged in questionable accounting or auditing practices.

(h) As of the Closing, the Company (excluding the Israeli Subsidiary) shall have no Liabilities.

2.5 Litigation. There is no action, claim, proceeding, suit, hearing, litigation, arbitration or audit (whether civil, criminal, administrative, judicial or investigative) or any appeal therefrom or, to the knowledge of the Company, any investigation, brought, conducted or heard by or before, or otherwise involving any court or other Governmental Entity or any arbitrator or arbitration panel (a "***Legal Proceeding***"), or threatened, against the Company or the Israeli Subsidiary or any of its assets or properties, including without limitation, any Company Employee Plans, or any of its directors, officers, independent contractors or employees (in their capacities as such or relating to their employment, services or relationship with the Company or the Israeli Subsidiary). There is no judgment, decree, rule, injunction or order against the Company or the Israeli Subsidiary, any of its assets or properties, or, to the knowledge of the Company, any of its directors, officers, independent contractors or employees (in their capacities as such or relating to their employment, services or relationship with the Company). To the knowledge of the Company, there is no reasonable basis for any Person to assert a claim against the Company or the Israeli Subsidiary or any of its assets or properties or any of its directors, officers, independent contractors or employees (in their capacities as such or relating to their employment, services or relationship with the Company or the Israeli Subsidiary) based upon: (a) the Company entering into this Agreement or any of the other transactions or agreements contemplated hereby; (b) any breach of a confidentiality or similar agreement entered into by the Company or the Israeli Subsidiary regarding its assets or properties; or (c) any claim that the Company or the Israeli Subsidiary has agreed to sell or dispose of any of its assets or properties to any party other than Purchaser, whether by way of merger, consolidation, sale of assets or otherwise. There is no Legal Proceeding that the Company or the Israeli Subsidiary has pending or is currently planning to commence against any other Person. The Company has provided Purchaser with all documentation relating to any Legal Proceeding and cease-and-desist letters involving the Company and/or the Israeli Subsidiary since March 1, 2010. Schedule 2.5 of the Company Disclosure Letter sets forth a list of all Legal Proceedings and cease-and-desist letters involving the Company and/or the Israeli Subsidiary since March 1, 2010. The Company and the Israeli Subsidiary have made the changes requested in the cease-and-desist letters set forth on Schedule 2.5 of the Company Disclosure Letter to the extent required by applicable Legal Requirements.

2.6 Restrictions on Business Activities. There is no Contract, judgment, injunction, order or decree of or issued against the Company or the Israeli Subsidiary that restricts or prohibits, purports to restrict or prohibit, has or would reasonably be expected to have, whether before or after consummation of the Share Purchase, the effect of prohibiting, restricting or impairing any current or presently proposed business practice of the Company or the Israeli Subsidiary, any acquisition of property by the Company or the Israeli Subsidiary or the conduct or operation of Business or limiting the freedom of the Company or the Israeli Subsidiary to engage in the Business or any line of business, to sell, license or otherwise distribute services or products in any market or geographic area, or to compete with any Person, including any grants by the Company or the Israeli Subsidiary of exclusive rights or exclusive licenses.

2.7 Compliance with Laws; Governmental Permits.

(a) The Company and the Israeli Subsidiary have complied in all material respects with, are not in violation of, any Legal Requirement (which for purposes of this section 2.7(a) shall not include matters covered in Section 2.9(q)), including the Charter Documents. The Company and the Israeli Subsidiary have not received any notices of violation with respect to any Legal Requirement, including the Charter Documents.

(b) The Company and the Israeli Subsidiary has obtained each national, local or foreign governmental consent, license, permit, grant, or other authorization of a Governmental Entity (i) pursuant to which the Company currently and the Israeli Subsidiary operates or holds any interest in any of its assets or properties or (ii) that is required for the operation of the Company's or the Israeli Subsidiary business or the holding of any such interest (all of the foregoing consents, licenses, permits, grants, and other authorizations, collectively, the "***Company Authorizations***"), and all of the Company Authorizations are in full force and effect. Schedule 2.7(b) of the Company Disclosure Letter identifies each Company Authorization. Neither the Company nor the Israeli Subsidiary has received any notice or other communication from any Governmental Entity regarding (i) any actual or possible violation of any Company Authorization or (ii) any actual or possible revocation, withdrawal, suspension, cancellation, termination or modification of any Company Authorization. The Company and the Israeli Subsidiary have complied with all of the terms of the Company Authorizations and none of the Company Authorizations will be terminated or impaired, or will become terminable, in whole or in part, as a result of the consummation of the transactions contemplated by this Agreement.

(c) Except as set forth in Schedule 2.7(c) of the Company Disclosure Letter the Company has obtained all approvals necessary for (i) exporting and re-exporting the Company Products in accordance with all applicable export control regulations, and (ii) importing the Company Products into any country in which the Company Products are now sold or licensed for use. All such export and import licenses and approvals throughout the world are valid, current, outstanding and in full force and effect, and the Company and the Israeli Subsidiary are in compliance with the terms of all such export and import licenses or approvals. Except as set forth in Schedule 2.7(c) of the Company Disclosure Letter there are no pending Legal Proceedings, or threatened claims against the Company or the Israeli Subsidiary with respect to such export and import licenses and approvals. There are no facts or circumstances which are reasonably expected to result in a Legal Proceeding against the Company or the Israeli Subsidiary or any of its businesses or assets or any of the directors or officers of the Company or the Israeli Subsidiary (in their capacity as directors or officers of the Company or the Israeli Subsidiary), pertaining to export or import transactions. Neither the Company nor the Israeli Subsidiary use or develop, or engage in, encryption technology, technology with military applications, or other technology whose development, commercialization or export is restricted under applicable law, and no Company or Israeli Subsidiary business requires the Company or the Israeli Subsidiary to obtain a license from the Israeli Ministry of Defense or an authorized body thereof pursuant to Section 2(a) of the Control of Products and Services Declaration (Engagement in Encryption), 1974, as amended or Control of Products and Services Order (Export of Warfare Equipment and Defense Information), 1991, as amended.

2.8 Title to, Condition and Sufficiency of Assets.

(a) Neither the Company nor the Israeli Subsidiary own any real property. The Company and/or the Israeli Subsidiary has good title to, or valid leasehold interest in all of its properties, and interests in properties and assets, real and personal, reflected on the Company Balance Sheet or acquired after the Company Balance Sheet Date (except properties and assets, or interests in properties and assets, sold or otherwise disposed of since the Company Balance Sheet Date in the ordinary course of business consistent with past practice), or, with respect to leased properties and assets, valid leasehold interests in such properties and assets which afford the Company and/or the Israeli Subsidiary valid leasehold possession of the properties and assets that are the subject of such leases, in each case, free and clear of all Encumbrances, except Permitted Encumbrances. Schedule 2.8 of the Company Disclosure Letter identifies each parcel of real property leased by the Company and/or the Israeli Subsidiary. The Company has heretofore provided to Purchaser's counsel true, correct and complete copies of all leases, subleases and other agreements under which the Company or the Israeli Subsidiary uses or occupies or has the right to use or occupy, now or in the future, any real property or facility, including all modifications, amendments and supplements thereto.

(b) The assets and properties owned or leased by the Company and the Israeli Subsidiary (i) constitute all of the assets and properties that are necessary for the Company and the Israeli Subsidiary, as applicable, to conduct, operate and continue the Business, and to sell and otherwise enjoy full rights to exploitation of its assets, properties and all products and services that are provided in connection with its assets and properties, and (ii) constitute all of the assets and properties that are used in the Business, without (A) the need for Purchaser to acquire or license any other asset, property or Intellectual Property, or (B) the breach or violation of any Contract.

2.9 Intellectual Property.

(a) As used in this Agreement, the following terms have the meanings indicated below:

(i) "***Company Intellectual Property***" means any and all Company Owned Intellectual Property and any and all Third Party Intellectual Property that is licensed to and/or used by the Company or the Israeli Subsidiary.

(ii) "***Company Intellectual Property Agreements***" means any Contract governing any Company Intellectual Property to which the Company or the Israeli Subsidiary is a party or bound by, except for non-disclosure agreements entered in the ordinary course of business, forms of which have been provided to Purchaser, and Contracts for Third Party Intellectual Property that is generally, commercially available software and (i) is not material to the Company or the Israeli Subsidiary; (ii) has not been modified or customized for the Company or the Israeli Subsidiary; and (iii) is licensed for a one time fee or an annual fee under $1,000 for a single user or work station, or $10,000 in the aggregate for all users and work stations.

(iii) "***Company Owned Intellectual Property***" means any and all Intellectual Property that is owned by the Company or the Israeli Subsidiary.

(iv) "***Company Products***" means all products or services produced, marketed, licensed, sold, distributed, offered, made available or performed by or on behalf of the Company or the Israeli Subsidiary and all products or services currently under development by the Company or the Israeli Subsidiary.

(v) "***Company Registered Intellectual Property***" means Israeli, international and foreign: (A) patents and patent applications (including provisional applications); (B) registered trademarks, applications to register trademarks, intent-to-use applications, or other registrations or applications related to trademarks; (C) registered Internet domain names; and (D) registered copyrights and applications for copyright registration; registered or filed in the name of, the Company or the Israeli Subsidiary.

(vi) "***Company Source Code***" means, collectively, any software source code or database specifications or designs, or any material proprietary information or algorithm contained in or relating to any software source code or database specifications or designs, of any Company Owned Intellectual Property or Company Products.

(vii) *"**Company Trade Secrets**"* means all Trade Secrets owned by the Company or the Israeli Subsidiary.

(viii) "***Governmental Grant***" means any grant, loan, incentive, subsidy, award, participation, exemption, status, cost sharing arrangement, reimbursement arrangement or other benefit, relief or privilege provided or made available by or on behalf of or under the authority of the OCS, the State of Israel, and other bi- or multi-national grant programs for the financing of research and development, the European Union, the Fund for Encouragement of Marketing Activities of the Israeli Government or any other Governmental Entity.

(ix) "***Intellectual Property***" means (A) Intellectual Property Rights; and (B) Proprietary Information and Technology.

(x) "***Intellectual Property Rights***" means any and all of the following and all rights in, arising out of, or associated therewith, throughout the world: patents, utility models, and applications therefor and all reissues, divisions, re-examinations, renewals, extensions, provisionals, continuations and continuations-in-part thereof, and equivalent or similar rights in inventions and discoveries anywhere in the world, including invention disclosures, common law and statutory rights associated with Trade Secrets, confidential and proprietary information, know how, industrial designs and any registrations and applications therefor, trade names, logos, trade dress, trademarks and service marks, trademark and service mark registrations, trademark and service mark applications, and any and all goodwill associated with and symbolized by the foregoing items, Internet domain name applications and registrations, Internet and World Wide Web URLs or addresses, copyrights, copyright registrations and applications therefor, and all other rights corresponding thereto and any similar or equivalent rights to any of the foregoing, and all tangible embodiments of the foregoing.

(xi) "***Intercompany Agreement***" means that certain Research and Development Agreement, dated as of January 1, 2006, as amended on May 2011, between the Company and the Israeli Subsidiary.

(xii) "***Open Source Materials***" means software or other material that is distributed as "free software" or "open source software" as such terms are defined by the Free Software Foundation, or under licensing or distribution terms substantially similar thereto, including but not limited to the GNU General Public License (GPL), GNU Lesser General Public License (LGPL), Mozilla Public License (MPL), BSD licenses, the Artistic License, the Netscape Public License, the Sun Community Source License (SCSL) the Sun Industry Standards License (SISL) and the Apache License.

(xiii) "***Personal Data***" means information from or about an individual person whose use, aggregation, holding or management is restricted under any applicable law, including, but not limited to, an individual person's: (a) personally identifiable information (e.g. name, street address, telephone number, e-mail address, photograph, social security number, driver's license number, passport number, or any other piece of information that allows the identification of a natural person); (b) Internet Protocol address or other persistent identifier; and (c) "sensitive information" as defined by the Israeli Privacy Protection Law, 1981.

(xiv) "***Proprietary Information and Technology***" means any and all of the following: works of authorship, computer programs, source code and executable code, whether embodied in software, firmware or otherwise, assemblers, applets, compilers, user interfaces, application programming interfaces, protocols, architectures, documentation, annotations, comments, designs, files, records, schematics, test methodologies, test vectors, emulation and simulation tools and reports, hardware development tools, models, tooling, prototypes, breadboards and other devices, data, data structures, databases, data compilations and collections, inventions (whether or not patentable), invention disclosures, discoveries, improvements, technology, proprietary and confidential ideas and information, know-how and information maintained as Trade Secrets, tools, concepts, techniques, methods, processes, formulae, patterns, algorithms and specifications, customer lists and supplier lists and any and all instantiations or embodiments of the foregoing or any Intellectual Property Rights in any form and embodied in any media.

(xv) "***Third Party Intellectual Property***" means any and all Intellectual Property owned by a third party.

(xvi) *"**Trade Secrets**"* means all non disclosed and non-public inventions (whether or not patentable) and improvements thereto, know-how, research and development information, business plans, specifications, designs, processes, process libraries, technical data, customer data, financial information, pricing and cost information, bills of material, or other confidential information exclusively owned by a Person, including any formula, pattern, compilation, program, device, method, technique, or process, that (i) provides an actual or potential independent economic value from not being generally known to and not being readily ascertainable by, other Persons, and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

(b) Status. The Company and the Israeli Subsidiary, as applicable, has full title and ownership of, or is duly licensed under or otherwise authorized to use, all Intellectual Property necessary to enable it to carry on the Business, free and clear of any Encumbrances. The Israeli Subsidiary did not make any use of the Company Intellectual Property, other than pursuant to the Business. The Company Intellectual Property collectively constitutes all of the intangible assets, intangible properties, rights and Intellectual Property necessary or desirable for Purchaser's conduct of, or that are used in or held for use for, the Business, without: (i) the need for Purchaser to acquire or license any other intangible asset, intangible property or Intellectual Property Right, and (ii) the breach or violation of any Contract. Neither the Company nor the Israeli Subsidiary has transferred ownership of, or agreed to transfer ownership of, or granted any exclusive licenses to, or agreed to grant any exclusive licenses to any Company Owned Intellectual Property to any third party. No third party has any ownership right, title, interest, claim in or lien on any of the Company Owned Intellectual Property.

(c) Company Registered Intellectual Property. Schedule 2.9(c) of the Company Disclosure Letter lists all Company Registered Intellectual Property, and the jurisdictions in which it has been issued or registered or in which any application for such issuance and registration has been filed, or in which any other filing or recordation has been made; and all actions that are required to be taken by the Company and the Israeli Subsidiary within 120 days of the Agreement Date with respect to such Company Registered Intellectual Property in order to avoid prejudice to, impairment or abandonment of such Company Registered Intellectual Property. Each item of Company Registered Intellectual Property is valid and subsisting (or in the case of applications, applied for), all registration, maintenance and renewal fees currently due in connection with such Company Registered Intellectual Property have been paid and all documents, recordations and certificates in connection with such Company Registered Intellectual Property currently required to be filed have been filed with the relevant patent, copyright, trademark or other authorities in Israel and/or foreign jurisdictions, as the case may be, for the purposes of prosecuting, maintaining and perfecting such Company Registered Intellectual Property and recording Company's and the Israeli Subsidiary's ownership interests therein.

(d) Governmental Grants. Except as mentioned in Schedule 2.9(d), the Company and the Israeli Subsidiary is not now and never was, directly or indirectly, an applicant, recipient or beneficiary of any Governmental Grant whatsoever. None of the Company Owned Intellectual Property was developed or derived from, in whole or in part, funding or resources provided by, or are subject to restriction, constraint, control, supervision or limitation imposed by, the OCS or any other Governmental Entity or regulatory authority. No Governmental Entity has awarded any participation or provided any support to the Company or the Israeli Subsidiary or is or may become entitled to receive any royalties or other payments from the Company or the Israeli Subsidiary. No consent of any Governmental Entity or other Person is required to be obtained prior to the consummation of the Share Purchase pursuant to the terms of this Agreement in order to comply with any applicable law.

(e) Private Grants. At no time during the conception of or reduction to practice of any of the Company Owned Intellectual Property was any developer, inventor or other contributor to such Company Owned Intellectual Property operating under any grants from any private source, performing research sponsored by any private source or subject to any employment agreement or invention assignment or nondisclosure agreement or other obligation with any third party that could adversely affect, restrict or in any manner encumber the Company's or the Israeli Subsidiary's rights in such Company Owned Intellectual Property.

(f) Founders. All rights in, to and under all Intellectual Property created by the Company Founders for or on behalf or in contemplation of the Company and/or the Israeli Subsidiary (i) prior to the inception of the Company and/or the Israeli Subsidiary or (ii) prior to their commencement of employment with the Company and/or the Israeli Subsidiary have been duly and validly assigned to the Company, and the Company has no reason to believe that any such Person is unwilling to provide the Company or Purchaser with such cooperation as may reasonably be required to complete and prosecute all appropriate U.S. and foreign patent and copyright filings related thereto.

(g) Invention Assignment and Confidentiality Agreement.

(i) The Company and the Israeli Subsidiary have secured from all consultants, advisors, employees and independent contractors who independently or jointly contributed to or participated in the conception, reduction to practice, creation or development of any Intellectual Property for the Company or the Israeli Subsidiary (each an "***Author***"), unencumbered and unrestricted exclusive ownership of, all of the Authors' Intellectual Property in such contribution and has obtained the waiver of all non-assignable rights. No Author has retained or will retain any rights, licenses, claims or interest whatsoever, including without limitation, to royalties, fees or other compensation with respect to any Intellectual Property developed by the Author for the Company or the Israeli Subsidiary. Without limiting the foregoing, the Company and the Israeli Subsidiary have obtained written and enforceable proprietary information and invention disclosure and Intellectual Property assignments from all current and former Authors. The Company and the Israeli Subsidiary have provided to Purchaser copies of all such forms currently and historically used by the Company and the Israeli Subsidiary, as applicable, and each proprietary information and invention disclosure and Intellectual Property assignment executed by each Author conforms to the forms the Company has made available to Purchaser.

(ii) The Company has secured from the Israeli Subsidiary, which has independently or jointly contributed to or participated in the conception, reduction to practice, creation or development of any Intellectual Property for the Company, unencumbered and unrestricted exclusive ownership of, all of the Israeli Subsidiary's Intellectual Property in such contribution, except for the right to commercialize the Company Intellectual Property as set forth in the Intercompany Agreement. The Israeli Subsidiary has not retained any rights, licenses, claims or interest whatsoever with respect to any Intellectual Property developed. Without limiting the foregoing, the Company has obtained written and enforceable proprietary information and invention disclosure and Intellectual Property assignments from the Israeli Subsidiary. The Company has provided to Purchaser copies of all such forms currently and historically used by the Company and the Israeli Subsidiary, as applicable, and each proprietary information and invention disclosure and Intellectual Property assignment executed conforms to the forms the Company has made available to Purchaser.

(h) No Violation. No current or former employee, consultant, advisor or independent contractor of the Company or the Israeli Subsidiary: (i) is in violation of any term or covenant of any Contract relating to employment, invention disclosure, invention assignment, non-disclosure or non-competition or any other Contract with any other party by virtue of such employee's, consultant's, advisor's or independent contractor's being employed by, or performing services for, the Company or the Israeli Subsidiary or using Trade Secrets or proprietary information of others without permission in connection with such employee's, consultant's, advisor's or independent contractor's being employed by, or performing services for, the Company or the Israeli Subsidiary; or (ii) has developed any technology, software or other copyrightable, patentable or otherwise proprietary work for the Company or the Israeli Subsidiary that is subject to any agreement under which such employee, consultant, advisor or independent contractor has assigned or otherwise granted to any third party any rights (including Intellectual Property Rights) in or to such technology, software or other copyrightable, patentable or otherwise proprietary work. Neither the execution nor delivery of this Agreement will conflict with or result in a breach of the terms, conditions, or provisions of, or constitute a default under, any Contract of the type described in clause (i) of the foregoing sentence.

(i) Confidential Information. The Company and the Israeli Subsidiary have taken all commercially reasonable steps to protect and preserve the confidentiality of all confidential or non-public information of the Company or the Israeli Subsidiary (including, without limitation, Company Trade Secrets) as well as confidential or non-public information provided by any third party (including, without limitation, Trade Secrets) to the Company or the Israeli Subsidiary under a written obligation of confidentiality ("***Confidential Information***"). All current and former employees and contractors of the Company and the Israeli Subsidiary and any third party having access to Confidential Information have executed and delivered to the Company or the Israeli Subsidiary, as applicable, a written legally binding agreement regarding the protection of such Confidential Information. The Company and the Israeli Subsidiary have implemented and maintains a reasonable security plan consistent with industry practices of companies offering similar services. To the knowledge of the Company, neither the Company nor the Israeli Subsidiary has experienced any breach of security or otherwise unauthorized access by third parties to the Confidential Information, including Personal Data in the Company's or the Israeli Subsidiary's possession, custody or control.

(j) Non-Infringement. To the knowledge of the Company, there is no unauthorized use, unauthorized disclosure, infringement or misappropriation of any Company Owned Intellectual Property by any third party. Neither the Company nor the Israeli Subsidiary has brought any action, suit or proceeding for infringement or misappropriation of any Intellectual Property. Neither the Company nor the Israeli Subsidiary is infringing, misappropriating or violating and has not infringed, misappropriated or violated the Intellectual Property of any third party. Neither the Company nor the Israeli Subsidiary has been sued in any action, suit or proceeding or received any written communications (including any third party reports by users) alleging that the Company or the Israeli Subsidiary have infringed, misappropriated, or violated or, by conducting the Business, would infringe, misappropriate, or violate any Intellectual Property of any other Person or entity. No Company Owned Intellectual Property or Company Product is subject to any proceeding, order, judgment, settlement agreement, stipulation or right that restricts in any manner the use, transfer, or licensing thereof by the Company or the Israeli Subsidiary, or which may affect the validity, use or enforceability of any such Company Owned Intellectual Property.

(k) Digital Millennium Copyright Act. The Company and the Israeli Subsidiary operate and have operated their respective businesses in such a manner as to take reasonable advantage, if and when applicable, of the safe harbors provided by Section 512 of the Digital Millennium Copyright Act ("***DMCA***"), including by informing users of its products and services of such policy, designating an agent for notice of infringement claims, registering such agent with the United States. Copyright Office, and taking appropriate action expeditiously upon receiving notice of possible infringement in accordance with the "notice and take-down" procedures of the DMCA.

(l) Licenses; Agreements. Neither the Company nor the Israeli Subsidiary has granted, nor is the Company or the Israeli Subsidiary bound by, or a party to, any options, licenses or agreements of any kind relating to any Company Owned Intellectual Property outside of normal nonexclusive licenses to use the Company Products in the ordinary course (copies of which have been provided to Purchaser's counsel). Neither the Company nor the Israeli Subsidiary is or may be obligated to pay any royalties or other payments to third parties with respect to the marketing, sale, distribution, manufacture, license or use of any Company Products or Company Owned Intellectual Property or any other property or rights. Neither the execution nor delivery of this Agreement will conflict with or result in a breach of the terms, conditions, or provisions of, or constitute a default under, any contract, covenant, or instrument to which the Company is a party.

(m) Other Intellectual Property Agreements. With respect to the Company Intellectual Property Agreements:

(i) The Company is not (and will not be as a result of the execution and delivery or effectiveness of this Agreement or the performance of the Company's obligations under this Agreement), in material breach of any Company Intellectual Property Agreement and the consummation of the transactions contemplated by this Agreement will not result in the modification, cancellation, termination, suspension of, or acceleration of any payments, rights, obligations, or remedies with respect to any material Company Intellectual Property Agreements, or give any non-Company party to any Company Intellectual Property Agreement the right to do any of the foregoing;

(ii) Immediately following Closing, Purchaser (through the Company) will be permitted to exercise all of the Company's rights under the Company Intellectual Property Agreements to the same extent the Company would have been able to had the transactions contemplated by this Agreement not occurred and without the payment of any additional amounts or consideration other than ongoing fees, royalties or payments which the Company would otherwise be required to pay;

(iii) There are no unresolved disputes regarding the scope of any Company Intellectual Property Agreements, or performance under any Company Intellectual Property Agreements including with respect to any payments to be made or received by the Company thereunder;

(iv) No Company Intellectual Property Agreement requires the Company to include any Third Party Intellectual Property in any Company Product or obtain any Person's approval of any Company Product at any stage of development, licensing, distribution or sale of that Company Product;

(v) None of the Company Intellectual Property Agreements grants any third party exclusive rights to or under any Company Intellectual Property;

(vi) None of the Company Intellectual Property Agreements grants any third party the right to sublicense any Company Intellectual Property;

(vii) The Company has obtained valid, written, perpetual non-terminable (other than for cause) licenses (sufficient for the conduct of the Business) to all Third Party Intellectual Property and for all Intellectual Property of another Person, included in the Third Party Intellectual Property, that is incorporated into, integrated or bundled by the Company with any of the Company Products or otherwise offered or made available by the Company, and such licenses are listed in Section 2.9(m)(vii) of the Company Disclosure Letter; and

(viii) No third party that has licensed Intellectual Property Rights to the Company or the Israeli Subsidiary has ownership or license rights to improvements or derivative works made by the Company or the Israeli Subsidiary in the Third Party Intellectual Property that has been licensed to the Company or the Israeli Subsidiary.

(n) Neither this Agreement nor the transactions contemplated by this Agreement, or the assignment to Purchaser by operation of law or otherwise of any Contracts to which the Company or the Israeli Subsidiary is a party, will result in: (i) Purchaser or any of its Affiliates granting to any third party any right to or with respect to any Intellectual Property Rights owned by, or licensed to Purchaser or any of its Affiliates, other than those previously licensed by the Company or the Israeli Subsidiary (ii) Purchaser or any of its Affiliates, being bound by or subject to, any exclusivity obligations, non-compete or other restriction on the operation or scope of their respective businesses, other than those previously agreed to by the Company or the Israeli Subsidiary or (iii) Purchaser being obligated to pay any royalties or other material amounts to any third party in excess of those payable by any of them, respectively, in the absence of this Agreement or the transactions contemplated hereby.

(o) Source Code. Neither the Company nor the Israeli Subsidiary has disclosed, delivered or licensed to any Person or agreed or obligated itself to disclose, deliver or license to any Person, or permitted the disclosure or delivery to any escrow agent or other Person of, any Company Source Code, other than disclosures to employees and consultants involved in the development of Company Products. No event has occurred, and no circumstance or condition exists, that (with or without notice or lapse of time, or both) will, or would reasonably be expected to, result in the disclosure, delivery or license by the Company or the Subsidiary of any Company Source Code, other than disclosures to employees and consultants involved in the development of Company Products. Without limiting the foregoing, neither the execution of this Agreement nor any of the transactions contemplated by this Agreement will result in a release from escrow or other delivery to a third party of any Company Source Code.

(p) Open Source Software.Schedule 2.9(p) of the Company Disclosure Letter identifies all Open Source Materials used in any Company Products or in the conduct of the Business, describes the manner in which such Open Source Materials were used (such description shall include whether (and, if so, how) the Open Source Materials were modified and/or distributed by the Company or the Israeli Subsidiary) and identifies the licenses under which such Open Source Materials were used. The Company and the Israeli Subsidiary are materially in compliance with the terms and conditions of all licenses for the Open Source Materials. Other than as described in Schedule 2.9 (p) of the Company Disclosure Letter neither the Company nor the Israeli Subsidiary has (i) incorporated Open Source Materials into, or combined Open Source Materials with, the Company Owned Intellectual Property or Company Products; (ii) distributed Open Source Materials which is bundled or incorporated within any Company Owned Intellectual Property or Company Products; or (iii) used Open Source Materials, in such a way that, with respect to (i), (ii), or (iii), creates, or purports to create obligations for the Company or the Israeli Subsidiary with respect to any Company Owned Intellectual Property or grant, or purport to grant, to any third party, any rights or immunities under any Company Owned Intellectual Property (including using any Open Source Materials that require, as a condition of use, modification and/or distribution of such Open Source Materials that other software incorporated into, derived from or distributed with such Open Source Materials be (A) disclosed or distributed in Source Code form, (B) be licensed for the purpose of making derivative works, or (C) be redistributable at no charge).

(q) Privacy. The Company and the Israeli Subsidiary have established privacy policies with respect to the Personal Data which are in conformance with reputable industry practice and, in all material respects, all applicable laws and regulations. The Company and the Israeli Subsidiary are in compliance, in all material respects, with such privacy policies, with any contractual obligations relating to privacy, data protection, and the collection and use of the Personal Data and with all applicable laws and regulations relating to the use, collection, storage, disclosure and transfer of any Personal Data collected by the Company or the Israeli Subsidiary or by third parties having authorized access to the records of the Company or the Israeli Subsidiary. The execution, delivery and performance of this Agreement, will comply with all such applicable laws and regulations relating to privacy and with the Company's and the Israeli Subsidiary's privacy policies. Neither the Company nor the Israeli Subsidiary have received any complaint regarding the Company's or the Israeli Subsidiary's collection, use or disclosure of Personal Data.

(r) Personal Data.Schedule 2.8(r) of the Company Disclosure Letter identifies and describes each distinct electronic or other database containing (in whole or in part) Personal Data maintained by or for the Company or the Israeli Subsidiary at any time ("***Company Databases***"), the types of Personal Data in each such database, the means by which the Personal Data was collected, and the security policies that have been adopted and maintained with respect to each such database. No breach or violation of any such security policy by the Company or the Israeli Subsidiary has occurred or is threatened, and to the Company's knowledge, there has been no unauthorized or illegal use of or access to any of the data or information in any of the Company Databases. Neither the Company nor the Israeli Subsidiary collects information, personal or otherwise, that would require it to register a database under Israeli law. Neither the Company nor the Israeli Subsidiary collects any information which can be used or de-anonymized to distinguish or trace an individual's identity, such as name, social security number, biometric records, etc. alone, or when combined with other personal or identifying information which is linked or linkable to a specific individual, such as date and place of birth, mother's maiden name, etc.

2.10 Taxes.

(a) Tax Returns and Payments. All Tax Returns required to be filed by or on behalf of the Company or the Israeli Subsidiary (the "***Company Returns***") have been timely and properly filed with the appropriate Tax Authorities and are true, accurate and complete in all material respects. All Taxes of the Company and the Israeli Subsidiary that are due and payable have been timely and properly paid. All Taxes required to be withheld by the Company or the Israeli Subsidiary have been properly and timely withheld and remitted. The Company has delivered to Purchaser accurate and complete copies of all income and other material Tax Returns filed by the Company and the Israeli Subsidiary since inception. Schedule 2.10(a) of the Company Disclosure Letter lists each jurisdiction in which the Company and the Israeli Subsidiary is required to file a Tax Return. Neither the Company nor the Israeli Subsidiary has requested or been granted any extension of time to file a Tax Return, which Tax Return has not been filed. To the knowledge of the Company, no claim has ever been made by an authority in a jurisdiction where the Company or the Israeli Subsidiary does not file Tax Returns that it is or may be subject to taxation by that jurisdiction. The Company Financial Statements properly and adequately accrue or reserve for Tax liabilities in accordance with GAAP.

(b) Audits; Claims. No Company Return has ever been examined or audited by any Governmental Entity. The Company and the Israeli Subsidiary have not received from any Governmental Entity any written: (i) notice indicating an intent to open an audit or other review; (ii) request for information related to Tax matters; or (iii) notice of deficiency or proposed Tax adjustment. No extension or waiver of the limitation period for the assessment or collection of Tax has been granted by or requested from the Company or the Israeli Subsidiary. No claim or Legal Proceeding is pending or threatened against the Company or the Israeli Subsidiary in respect of any Tax. There are no liens for Taxes upon any of the assets of the Company or the Israeli Subsidiary except liens for current Taxes not yet due and payable (and for which there are adequate accruals, in accordance with GAAP).

(c) Sufficiency. The total amounts set up as liabilities for current and deferred Taxes in the Company Financial Statements are sufficient to cover the payment of all Taxes, whether or not assessed or disputed, which are, or are hereafter found to be, or to have been, due by or with respect to the Company or the Israeli Subsidiary up to and through the periods covered by the Company Financial Statements.

(d) Closing Agreements; Etc. Neither the Company nor the Israeli Subsidiary will be required to include any item of income in, or exclude any item of deduction from, taxable income for any taxable period (or portion thereof) ending after the Closing Date as a result of any change in method of accounting, closing agreement, installment sale or prepaid amount received for a taxable period ending on or prior to the Closing Date. Neither the Company nor the Israeli Subsidiary is a party to or bound by any Tax allocation or sharing agreement. Neither the Company nor the Israeli Subsidiary has never been a member of an affiliated, consolidated, combined, unitary or aggregate group for purposes of any Tax Return.

(e) Transferee or Successor Tax Liability. Neither the Company nor the Israeli Subsidiary has any Liability for the Taxes of any Person as a transferee or successor or otherwise by operation of law, by Contract or otherwise.

(f) Withholding. The Company and the Israeli Subsidiary have complied with all applicable Legal Requirements relating to the payment, reporting and withholding of Taxes, and has, within the time and in the manner prescribed by law, withheld from employee wages or consulting compensation or payments to Securityholders and timely paid over to the proper governmental authorities (or is properly holding for such timely payment) all amounts required to be so withheld and paid over under all applicable Legal Requirements, including income Taxes and employment Tax withholding laws, and has timely filed all withholding Tax Returns, for all periods.

(g) VAT. The Company is not required to be duly registered for the purposes of Value Added Tax ("***VAT***"). The Israeli Subsidiary is duly registered for the purposes of VAT, as defined in the relevant laws concerning VAT in its country of organization, if applicable. The Israeli Subsidiary has complied in all material respects with all laws concerning VAT, including with respect to the making on time of accurate returns and payments and the maintenance of records.

(h) Section 102 Options. All Company Options which the Company or the Israeli Subsidiary has purported to grant pursuant to the "*capital gains route*" of Section 102(b) of the Israeli Income Tax Ordinance ("***Section 102(b)***") have been granted in compliance in all respects with the applicable requirements of Section 102(b), and the requirements of any rules or ITA policies relating to Section 102(b), including, without limitation, (i) the filing of applicable documents, applications and notices with the ITA, (ii) the appointment of an authorized trustee to hold the Company Options pursuant to Section 102(b), and (iii) the timely deposit of such Company Options with such trustee pursuant to the terms of Section 102(b).

(i) Country of Organization. The Company is not treated for any Tax purpose as a resident in a country other than the country of its organization and the Company has never had a branch, agency or permanent establishment in a country other than the country of its organization. The Israeli Subsidiary is not treated for any Tax purpose as a resident in a country other than the country of its organization and the Israeli Subsidiary has never had a branch, agency or permanent establishment in a country other than the country of its organization.

(j) Restructure Limitations. Except in connection with the 104(h) Tax Pre-Ruling and the Domiciliation Ruling, the Company and the Company Shareholders (solely with respect to their holdings in the Company) are not subject to any restrictions or limitations pursuant to Part E2 of the Israeli Income Tax Ordinance. The Israeli Subsidiary is not subject to any restrictions or limitations pursuant to Part E2 of the Israeli Income Tax Ordinance.

(k) Tax Agreements and Rulings. Except as set forth in Schedule 2.10(k) of the Company Disclosure Letter and as contemplated under this Agreement, no closing agreements, rulings or similar agreements or rulings relating to Taxes have been entered into or issued by any Governmental Entity with or in respect of the Company or the Israeli Subsidiary. Neither the Company nor the Israeli Subsidiary has requested or received a ruling from any Tax authority (except for the election of tax route under Section 102(b)). The Company has made available to Purchaser accurate and complete copies of any Tax ruling relating to the Company or the Israeli Subsidiary obtained from the Israeli Tax Authority and applications therefor, including with respect to Company Options, in each case since inception.

(l) Transfer Pricing. Any related party transactions subject to Section 85A of the Israeli Income Tax Ordinance conducted by the Company or the Israeli Subsidiary has been conducted on an arms-length basis in accordance with Section 85A of the Israeli Income Tax Ordinance and the regulations promulgated thereunder.

(m) Tax Incentives. The Israeli Subsidiary is currently entitled to certain tax benefits or incentives under the Israeli Law for the Encouragement of Capital Investments, 1959 ("***Tax Incentives***"). Schedule 2.10(m) of the Company Disclosure Letter lists each Tax Incentive to which the Company and/or the Israeli Subsidiary is entitled under the laws of the State of Israel, the period for which such Tax Incentive applies, and the nature of such Tax Incentive. Unless otherwise disclosed in Schedule 2.10(m) of the Company Disclosure Letter, no claim or challenge has been made, in writing, by any Governmental Entity with respect to the Company's or any of the Israeli Subsidiary's entitlement to any Tax Incentive, and consummation of the transactions contemplated by this Agreement will not adversely affect the continued qualification for the Tax Incentives or the terms or duration thereof or require any recapture of any previously claimed Tax Incentive.

2.11 Employee Benefit Plans and Employee Matters.

(a) Employee List. Schedule 2.11(a) of the Company Disclosure Letter contains a list of all current Company Employees as of the date of this Agreement, and correctly reflects: (i) their name, title and dates of hire; (ii) scope of their position (full-time, part-time or temporary status), each Company Employee's classification as either exempt or non exempt from the overtime requirements under any applicable law; (iii) their current monthly salary (divided into base salary and global overtime payment, if relevant) or hourly wage rate, as applicable; (iv) any other compensation payable to them including housing allowances, compensation payable pursuant to bonus, deferred compensation or commission arrangements, overtime payment, vacation entitlement and accrued vacation or paid time-off balance, travel pay or car maintenance or car entitlement, sick leave entitlement and accrual, recuperation pay entitlement and accrual, entitlement to pension arrangement and/or any other provident fund (including manager's insurance and education fund), their respective contribution rates and the salary basis for such contributions, whether such employee's entire salary and any additional payments that are part of the determining salary for social contributions are subject to Section 14 Arrangement under the Israeli Severance Pay Law - 1963 ("***Section 14 Arrangement***") from their commencement date of their employment and notice period entitlement; (v) any promises or commitments made to the Company Employees, whether in writing or not, with respect to any future changes or additions to their compensation or benefits; and (vi) any material customs or customary practices regarding employees that could reasonably be deemed to be binding on the Company or the Israeli Subsidiary.

(b) The Company and the Israeli Subsidiary are not and was never a party to any collective bargaining agreement, or other Contract or arrangement with a labor union, trade union or other organization or body representing any of its Company Employees, or is otherwise required (under any legal requirement, under any Contract or otherwise) to provide benefits or working conditions under any of the foregoing. The Company and the Israeli Subsidiary are not and was never a member of any employers' association or organization, and no employers' association or organization has made any demand for payment of any kind from the Company or the Israeli Subsidiary. Except as set forth in Schedule 2.11(b), the Company and the Israeli Subsidiary are not, and no Company Employee benefits from any extension order (*tzavei harchava*) except for extension orders which generally apply to all employees in Israel. To the Company's and the Israeli Subsidiary's knowledge, there are no labor organizations representing or purporting to represent or seeking to represent any Company Employees. Neither the Company nor the Israeli Subsidiary has knowledge of any activities or proceedings of any labor union to organize any Company Employees. Neither the Company nor the Israeli Subsidiary engaged, and neither has ever been engaged, in any unfair labor practice of any nature. Neither the Company nor the Israeli Subsidiary has had any strike, slowdown, work stoppage, lockout, job action, labor dispute, union organizing activity or any similar activity or dispute or threat thereof, or question concerning representation, by or with respect to any of the Company Employees. To the Company's and the Israeli Subsidiary's knowledge, no event has occurred and no condition or circumstances exists, that might directly or indirectly give rise to or provide a basis for the commencement of any such strike, slowdown, work stoppage, lockout, job action, labor dispute or union organizing activity or any similar activity or dispute now or in the future.

(c) No Company Employee or Consultant has been dismissed in the last twelve months or has given notice of termination of his or her employment or engagement with the Company or the Israeli Subsidiary, except as detailed in Schedule 2.11(c) of the Company Disclosure Letter. The Company and the Israeli Subsidiary do not have unsatisfied obligations of any nature to any of its former Company Employees, and their termination was in compliance with all applicable legal requirements and agreement.

(d) Leave of Absence. As of the date of this Agreement, there is no current Company Employee who is not fully available to perform work because of disability or other leave of more than 30 consecutive days (including unpaid leave).

(e) At Will Employment. Except as set forth in Schedule 2.11(e) of the Company Disclosure Letter, neither the Company nor the Israeli Subsidiary have any obligation to provide any particular form or period of notice prior to terminating the employment of any of its current Employees, except as prescribed by applicable legal requirements or by any relevant applicable agreement according to which the employment of each of the current Company Employees is terminable by the Company or the Israeli Subsidiary, as applicable, with no more than 30 days prior notice. The Company has delivered to Purchaser accurate and complete copies of all material employee manuals and handbooks, disclosure materials, policy statements and other material documents relating to the employment of the Company Employees and Consultants.

(f) Employee Departures/Restrictions. To the Company's and the Israeli Subsidiary's knowledge, no current Company Employee (i) intends to terminate his employment with the Company or the Israeli Subsidiary, as applicable; (ii) has received an offer to join a business that may be competitive with the Company's or the Israeli Subsidiary's business; or (iii) is a party to or is bound by any confidentiality agreement, noncompetition agreement or other Contract (with any Person other than the Company or the Israeli Subsidiary) that may have an adverse effect on: (A) the performance by such employee of any of his duties or responsibilities as an employee of the Company or the Israeli Subsidiary; or (B) the Company's or the Israeli Subsidiary's business or operations.

(g) Employee Plans and Agreements. All the Company Employees and Consultants have executed employment or consultancy agreements (as applicable), accurate and complete copies of which were provided to Purchaser. Schedule 2.11(g) of the Company Disclosure Letter contains an accurate and complete list of each Company Employee Plan and each Company Employee Agreement and each Contract with any Consultant. Neither the Company nor the Israeli Subsidiary intend nor has either committed to establish or enter into any new Company Employee Plan or Company Employee Agreement or any agreement with a Consultant, or to modify any Company Employee Plan or Company Employee Agreement or any agreement with a Consultant (except to conform any such Company Employee Plan or Company Employee Agreement or any agreement with a Consultant to the requirements of any applicable Legal Requirements). With respect to the Company Employee Plan: (i) there are no funded benefit obligations for which contributions have not been made and there are no unfunded benefit obligations which have not been accounted for by reserves, or otherwise properly reflected in accordance with GAAP, on the Company Financial Statements, other than routine contribution obligations to be timely made in the normal course of business and consistent with past practice, and (ii) all reports and disclosures relating to the Company Employee Plan required to be filed with or furnished to any Governmental Entity have been filed or furnished in accordance with applicable law in a timely manner.

(h) Delivery of Documents. As applicable with respect to each Company Employee Plan (excluding any Company Employee Plan of a type of pension arrangement and any other provident fund), the Company has delivered to Purchaser: (i) correct and complete copies of all documents setting forth the terms of each Company Employee Plan, including a summary of each unwritten Company Employee Plan and each Company Employee Agreement, including all amendments thereto and all related trust documents; (ii) all written Contracts relating to administrative service agreements, manpower contractors including their licenses and group insurance contracts; (iii) all written materials provided to any Company Employee relating to any Company Employee Plan and any proposed Company Employee Plans, in each case, relating to any amendments, terminations, establishments, increases or decreases in benefits, acceleration of payments or vesting schedules or other events that would result in any liability to the Company or the Israeli Subsidiary; (iv) all correspondence to or from any Governmental Entity relating to any Company Employee Plan; and (v) all insurance policies in the possession of the Company or the Israeli Subsidiary pertaining to fiduciary liability insurance covering the fiduciaries for each Company Employee Plan.

(i) No Foreign Plans. Except as set forth in Schedule 2.11(i) of the Company Disclosure Letter, neither the Company nor the Israeli Subsidiary has established or maintained: (i) any plan, program, policy, practice, Contract or other arrangement mandated by a Governmental Entity other than Israel; (ii) any Company Employee Plan that is subject to any of the Legal Requirements of any jurisdiction outside of Israel; or (iii) any Company Employee Plan that covers or has covered Company Employees or Consultants whose services are or have been performed primarily outside of Israel.

(j) Absence of Certain Retiree Liabilities. No Company Employee Plan provides (except at no cost to the Company and the Israeli Subsidiary), or reflects or represents any liability of the Company or the Israeli Subsidiary to provide, retiree life insurance, retiree health benefits or other retiree employee welfare benefits to any Person for any reason, except as may be required by applicable Legal Requirements, a Company Employee Agreement or Company Employee Plan.

(k) No Defaults. The Company and the Israeli Subsidiary have performed all material obligations required to be performed by it under each Company Employee Plan and Company Employee Agreement and they are not in default or violation of, and to the knowledge of the Company and the Israeli Subsidiary, no other party is in default or violation of, the terms of any Company Employee Plan and Company Employee Agreement. Other than as set forth in Schedule 2.11(k)(i), each of the Company Employee Plans (excluding any Company Employee Plan of a type of pension arrangement and any other provident fund) has been operated and administered in all material respects in accordance with all applicable Legal Requirements. All contributions to, and material payments from, any Company Employee Plan which may have been required to be made in accordance with the terms of such Company Employee Plan or applicable Legal Requirements have been fully and timely made, and all contributions for any period ending on or before the Closing Date which are not yet due, but will be paid on or prior to the Closing Date, are reflected as an accrued liability on the Company Balance Sheet. There are no audits, inquiries or Legal Proceedings pending or threatened by any Governmental Entity with respect to any Company Employee Plan.

(l) No Conflict. Except as set forth in Schedule 2.11(l) of the Company Disclosure Letter or as provided for in this Agreement, neither the execution, delivery or performance of this Agreement, nor the consummation of the transactions contemplated hereunder, will or may (either alone or upon the occurrence of any additional or subsequent events): (i) constitute an event under any Company Employee Plan, Company Employee Agreement, trust or loan that will or may result (either alone or in connection with any other circumstance or event) in any payment (whether of severance pay or otherwise), acceleration, forgiveness of Indebtedness, vesting, distribution, increase in benefits or obligation to fund benefits with respect to any Company Employee or Consultant; (ii) create or otherwise result in any Liability with respect to any Company Employee Plan; or (iii) result in any obligation to pay any directors, officers, Company Employees, Consultants, former directors, officers, employees severance pay or termination, retention or any other benefits or payments.

(m) Compliance. Except as set forth in Schedule 2.11(m) of the Company Disclosure Letter, the Company and the Israeli Subsidiary: (i) have been and are currently in compliance in all material respects with all applicable Legal Requirements, Contracts and orders, rulings, decrees, judgments or arbitration awards of any arbitrator or any court or other Governmental Entity respecting employment, employment practices, terms and conditions of employment, wages, maximum hours of work, overtime, sick leave, annual leave, prior notice, severance payment, notice to employees or other labor-related matters, including Legal Requirements, orders, rulings, decrees, judgments and awards relating to discrimination, wages and hours, labor relations and termination of them, engagement with independent contractors, service providers, classification of employees and Consultants, enforcement of labor laws, leave of absence requirements, privacy, harassment, occupational safety and health, employee whistle-blowing, retaliation, immigration, contribution to managers' insurance policy or pension plan, social benefits, wrongful discharge of Company Employees or Consultants or prospective Company Employees or Consultants; (ii) has timely withheld and reported all amounts required by any Legal Requirement or Contract to be withheld and reported with respect to wages, salaries bonus benefits, commission, and other payments to any Company Employee or Consultant, including as required by the Israeli Income Tax Ordinance, as amended, and the rules and regulations promulgated thereunder, and the National Insurance Law of Israel or otherwise; (iii) all amounts that the Company and the Israeli Subsidiary is legally or contractually required to deduct from Company Employees' salaries or Consultant's consideration (as applicable) or to transfer to such Company Employees' Plan, have, in each case, been duly deducted, transferred, withheld and paid, and neither the Company nor the Israeli Subsidiary have any outstanding obligations to make any such deduction, transfer, withholding or payment all other than routine contributions and benefit obligations to be timely made in the normal course of business and consistent with past practice; (iv) has no Liability for any arrears of wages or any Taxes or any penalty for failure to comply with any of the foregoing; and (v) has no Liability for any payment to any trust or other fund governed by or maintained by or on behalf of any Governmental Entity with respect to unemployment compensation benefits, social security or other benefits or obligations for any Company Employee or Consultant (other than routine payments to be made in the normal course of business and consistent with past practice).

(n) Labor Relations. The Company and the Israeli Subsidiary have good labor relations, and, except as set forth in Schedule 2.11(n) of the Company Disclosure Letter, to the Company's and the Israeli Subsidiary's knowledge (i) there are no facts indicating that the consummation of the Transactions will have a material adverse effect on the labor relations of any of the Company or the Israeli Subsidiary, and (ii) no Company Employees or Consultants have notified the Company or the Israeli Subsidiary with respect to his or her intention to terminate his or her employment or engagement with the Company or the Israeli Subsidiary.

(o) Company Options. Except as set forth in Schedule 2.11(o) of the Company Disclosure Letter, all Company Options granted by the Company and the Israeli Subsidiary to its directors, officers and employees in Israel were granted under employee option plans approved by the Israeli Tax authorities under Section 102(b). Except as set forth in Schedule 2.11(o) of the Company Disclosure Letter the Company has complied with all requirements of such Section 102(b) and the regulations promulgated thereunder in all respects.

(p) Consultants. Schedule 2.11(p) of the Company Disclosure Letter accurately sets forth, with respect to each current Consultant providing services of the nature of "personal services" directly or via an entity: (i) the name of such Consultant, title, and the date as of which such Consultant was originally engaged by the Company or the Israeli Subsidiary, (ii) any compensation payable to such Consultant including fees, consideration, compensation payable pursuant to bonus, deferred compensation or commission arrangements, (iii) whether any of such Consultant is not fully available to perform work because of disability or other leave (and the basis of such disability or other leave) and (iv) any promises or commitments made to such Consultant, whether in writing or not, with respect to any future changes or additions to their compensation or benefits. Except as set forth on Schedule 2.11(p) of the Company Disclosure Letter all Consultants and former Consultants are and were rightly classified as independent contractors and would not reasonably be expected to be misclassified by the courts or any other authority as employees of the Company or the Israeli Subsidiary. No Consultant or former Consultant is entitled to any rights under the applicable labor law. All the current and former Consultants have received all their rights to which they are and were entitled to according to any applicable law or agreement with the Company or the Israeli Subsidiary. Except as set forth in Schedule 2.11(p) of the Company Disclosure Letter, each current Consultant's agreement or engagement with the Company or the Israeli Subsidiary can be terminated immediately and with no more than 30 days prior notice. Except as set forth in Schedule 2.11(p) of the Company Disclosure Letter, neither the Company nor the Israeli Subsidiary engage manpower employees.

(q) Labor-Related Claims. Except as set forth in Schedule 2.11(q) of the Company Disclosure Letter, there is no Legal Proceeding, claim, labor dispute or grievance pending or threatened, in writing, or to the Company's or the Israeli Subsidiary's knowledge, orally, relating to (i) any employment Contract, service agreement with Consultant or similar Contract, compensation, wages and hours, working during overtime hours, leave of absence, plant closing notification, employment statute, rightly classified as independent contractors or regulation, privacy right, labor dispute, workers' compensation policy, long-term disability policy, social benefits, termination of employment, safety, retaliation, immigration or discrimination matter involving any Company Employee, or Consultant, including charges of unfair labor practices or harassment complaints or any other labor related issue, or (ii) any of the Company Employee Plans, the assets of any of the Company Employee Plans or the Company or the Israeli Subsidiary, or the Company Employee Plan administrator or any fiduciary of the Company Employee Plans with respect to the operation of such Company Employee Plans (other than routine, uncontested benefit claims) or asserting any rights or claims to benefits under such Company Employee Plan; and there are no facts or circumstances which would reasonably be expected to form the basis for any such claims or Legal Proceedings

(r) There are no unwritten policies, practices or customs of the Company or the Israeli Subsidiary that are material or that entitle any Company Employee to benefits which are reasonably expected to result in annual cash payments of more than $10,000 or any payment of Company Share Capital or Israeli Subsidiary Share Capital, in addition to what such Company Employee is entitled to by applicable law or under the terms of such Company Employee's employment agreement or any other binding source (including unwritten customs or practices, including concerning bonuses, the payment of statutory severance pay when it is not required under applicable law)

(s) The Company (excluding the Israeli Subsidiary) does not have, and never has had, any employees or Consultants.

2.12 Interested Party Transactions.

(a) Except as set forth on Schedule 2.12(a) of the Company Disclosure Letter, neither the Company nor the Israeli Subsidiary is indebted to any current or former director, officer, employee, consultant, shareholder or related party of the Company or the Israeli Subsidiary (except for current amounts due as normal salaries and bonuses and in reimbursement of ordinary business expenses), and no such Person is indebted to the Company or the Israeli Subsidiary.

(b) To the Company's knowledge, no officer, director or shareholder of the Company or the Israeli Subsidiary owns or holds, directly or indirectly, any interest in (excepting holdings solely for passive investment purposes of securities of publicly held and traded entities constituting less than five percent (5%) of the equity of any such entity), or is an officer, director, employee or consultant of, any Person that is a competitor, lessor, lessee, customer or supplier of the Company or the Israeli Subsidiary or which conducts a business similar to any business conducted by the Company or the Israeli Subsidiary.

(c) No officer, director or shareholder of the Company or the Israeli Subsidiary owns or holds, directly or indirectly, in whole or in part, any Company Intellectual Property.

(d) To the Company's knowledge, no officer, director, employee, consultant or shareholder of the Company or the Israeli Subsidiary, (i) has any claim, charge, action or cause of action against the Company or the Israeli Subsidiary, except for claims for reasonable unreimbursed travel or entertainment expenses, accrued vacation pay or accrued benefits under any employee benefit plan or consulting agreement existing on the date hereof (or as set forth on Schedule 2.12(d)(i) of the Company Disclosure Letter), (ii) has made, on behalf of the Company or the Israeli Subsidiary, any payment or commitment to pay any commission, fee or other amount to, or to purchase or obtain or otherwise Contract to purchase or obtain any goods or services from, any other Person of which any officer, director or shareholder of the Company or the Israeli Subsidiary (or, to the knowledge of the Company, a relative of any of the foregoing) is a partner or shareholder (except holdings solely for passive investment purposes of securities of publicly held and traded entities constituting less than five percent (5%) of the equity of any such entity) or (iii) has any interest in any property, real or personal, tangible or intangible, used in or pertaining to the business of the Company or the Israeli Subsidiary.

(e) All transactions since incorporation of the Israeli Subsidiary between the Israeli Subsidiary and interested parties that require approval pursuant to Sections 268 to 284 of the Israel Companies Law, 1999, or pursuant to the Charter Documents or Contracts have been approved or ratified in accordance with such requirements.

2.13 Insurance. The Company and the Israeli Subsidiary maintain the policies of insurance and bonds set forth in Schedule 2.13 of the Company Disclosure Letter, including all legally required insurance. Schedule 2.13 of the Company Disclosure Letter sets forth all claims made under such policies and bonds since March 1, 2010, including all pending claims. The Company has provided to Purchaser's counsel correct and complete copies of all such policies of insurance and bonds issued at the request or for the benefit of the Company or the Israeli Subsidiary. There is no claim pending under any of such policies or bonds as to which coverage has been questioned, denied or disputed by the underwriters of such policies or bonds. All premiums due and payable under all such policies and bonds have been timely paid and the Company and the Israeli Subsidiary are otherwise in compliance with the terms of such policies and bonds. All such policies and bonds remain in full force and effect, and the Company has no knowledge of any threatened termination of, or material premium increase with respect to, any of such policies.

2.14 Books and Records. The Company has provided to Purchaser, its counsel or other advisors correct and complete copies of each document that has been requested by Purchaser, its counsel and other advisors in connection with their legal and accounting review of the Company and the Israeli Subsidiary (other than any such document that does not exist or is not in the Company's possession or subject to its control). Without limiting the foregoing, the Company has provided to Purchaser or its counsel complete and correct copies of (a) all Material Contracts of the Company and the Israeli Subsidiary and all other documents listed on the Company Disclosure Letter, (b) the Charter Documents of the Company and the Israeli Subsidiary, in each case as amended to date and as currently in effect, (c) the minute books containing records of all proceedings, consents, actions and meetings of the Company Board of Directors and the board of directors of the Israeli Subsidiary (the "***Israeli Subsidiary Board of Directors***"), committees of the Company Board of Directors and Israeli Subsidiary Board of Directors and Company Shareholders of the Company, (d) the shareholders register, journal and other records reflecting all share issuances and transfers and all share option grants and agreements of the Company and the Israeli Subsidiary and a document setting forth all transfers and issuances of any capital stock of the Company from incorporation to the Agreement Date, attached hereto as Schedule 2.14(d) of the Company Disclosure Letter, (e) all permits, orders and consents issued by any regulatory agency with respect to the Company or the Israeli Subsidiary, or any securities of the Company or the Israeli Subsidiary, and all applications for such permits, orders and consents, and (f) all agreements relating to Intellectual Property. The minute books of the Company provided to Purchaser contain a complete and accurate, in all material respects, summary of all meetings of directors and Company Shareholders or actions by written consent since the time of incorporation of the Company through the date of this Agreement. The minute books of the Israeli Subsidiary provided to Purchaser contain a complete and accurate summary, in all material respects, of all meetings of directors and Israeli Subsidiary Shareholder or actions by written consent since the time of incorporation of the Israeli Subsidiary through the date of this Agreement. There has not been any violation of any of the provisions of the Charter Documents, including all amendments thereto, and the Company and the Israeli Subsidiary have not taken any action that is inconsistent in any respect with any resolution adopted by its respective shareholders or board of directors, as applicable. The books, records and accounts of the Company and the Israeli Subsidiary (i) are true, correct and complete in all material respects, (ii) have been maintained in accordance with reasonable business practices on a basis consistent with prior years, (iii) are stated in reasonable detail and accurately and fairly reflect, in all material respects, all of the transactions and dispositions of the assets and properties of the Company and the Israeli Subsidiary, and (iv) accurately and fairly reflect the basis for the Company Financial Statements. No unrecorded fund or asset of the Company or the Israeli Subsidiary has been established for any purpose, no accumulation or use of corporate funds of the Company or the Israeli Subsidiary has been made without being properly accounted for in the books and records of the Company or the Israeli Subsidiary, and no payment has been made by or on behalf of the Company or the Israeli Subsidiary with the understanding that any part of such payment is to be used for any purpose other than that described in the documents supporting such payment.

2.15 Material Contracts.

(a) Schedules 2.15(a) through (xix) of the Company Disclosure Letter set forth a list of each of the following Contracts to which the Company and/or the Israeli Subsidiary is a party ("***Material Contracts***"):

(i) any Contract providing for payments by or to the Company or the Israeli Subsidiary in an aggregate amount of $50,000 or more;

(ii) any dealer, distributor or similar agreement, or any Contract providing for the grant of rights to reproduce, license, market or sell its products or services to any other Person or relating to the advertising or promotion of the business of the Company or the Israeli Subsidiary or pursuant to which any third parties advertise on any websites operated by the Company or the Israeli Subsidiary providing for payments to or by the Company or the Israeli Subsidiary annually in an aggregate amount of $25,000 or more;

(iii) (1) any joint venture Contract, (2) any Contract that involves a sharing of revenues, profits, cash flows, expenses or losses with other Persons, (3) any Contract that involves the payment of royalties to any other Person or (4) any Contract between the Company and the Israeli Subsidiary;

(iv) any Contract for or relating to the employment or service of any director, officer, employee or consultant or any other type of Contract with any of its officers, employees or consultants, as the case may be;

(v) any agreement pursuant to which any other party is granted exclusive rights or "most favored party" rights of any type or scope with respect to any of the Company Products or Company Intellectual Property, or containing any non-competition covenants or other restrictions relating to the Company Products or Company Intellectual Property; or limits the freedom of the Company or the Israeli Subsidiary to engage or participate, or compete with any other Person, in any line of business, market or geographic area with respect to the Company Products or Company Intellectual Property, or to make use of any Company Intellectual Property Rights;

(vi) other than "shrink wrap" and similar generally available commercial end-user licenses to software that have an individual acquisition cost of $5,000 or less, all licenses, sublicenses and other Contracts to which the Company or the Israeli Subsidiary is a party and pursuant to which the Company or the Israeli Subsidiary acquired or is authorized to use any Third Party Intellectual Property rights used in the development, marketing or licensing of the Company Products;

(vii) any license, sublicense or other Contract to which the Company or the Israeli Subsidiary is a party and pursuant to which any Person is authorized to use any Intellectual Property Rights;

(viii) any license, sublicense or other Contract pursuant to which the Company or the Israeli Subsidiary has agreed to any restriction on the right of the Company or the Israeli Subsidiary to use or enforce any Company Owned Intellectual Property Rights or pursuant to which the Company or the Israeli Subsidiary agrees to encumber, transfer or sell rights in or with respect to any Company Owned Intellectual Property Rights;

(ix) any Contracts relating to the membership of, or participation by, the Company or the Israeli Subsidiary in, or the affiliation of the Company or the Israeli Subsidiary with, any industry standards group or association;

(x) any Contract providing for the development of any of the software, technology or Intellectual Property Rights, independently or jointly, either by or for the Company or the Israeli Subsidiary (other than employee invention assignment agreements and consulting agreements with Authors on the Company's or the Israeli Subsidiary's standard form of agreement, copies of which have been provided to Purchaser's counsel);

(xi) any confidentiality, secrecy or non-disclosure Contract, except if entered in the ordinary course of business;

(xii) any Contract to license or authorize any third party to manufacture or reproduce any of the Company Products or Company Intellectual Property;

(xiii) any agreement containing any support, maintenance or service obligation or cost on the part of the Company or the Israeli Subsidiary providing for payments by the Company or the Israeli Subsidiary annually in an aggregate amount of $25,000 or more;

(xiv) any settlement agreement providing for payments to or by the Company or the Israeli Subsidiary annually in an aggregate amount of $25,000 or more

(xv) any Contract pursuant to which rights of any third party are triggered or become exercisable, or under which any other consequence, result or effect arises, in connection with or as a result of the execution of this Agreement or the consummation of the Share Purchase or other transactions contemplated hereunder, either alone or in combination with any other event;

(xvi) any Company Product warranty providing for payments to or by the Company or the Israeli Subsidiary, annually in an aggregate amount of $25,000 or more;

(xvii) any Contract or plan (including any stock option, merger and/or stock bonus plan) relating to the sale, issuance, grant, exercise, award, purchase, repurchase or redemption of any shares of Company Share Capital or Israeli Subsidiary Share Capital or any other securities of the Company or the Israeli Subsidiary or any options, warrants, convertible notes or other rights to purchase or otherwise acquire any such shares of stock, other securities or options, warrants or other rights therefor, except for the repurchase rights disclosed on Schedule 2.2(a) of the Company Disclosure Letter;

(xviii) any Contract with any labor union or any collective bargaining agreement or similar contract with its employees;

(xix) any Contract with any Governmental Entity, any Company Authorization, or any Contract with a government prime contractor, or higher-tier government subcontractor, including any indefinite delivery/indefinite quantity contract, firm-fixed-price contract, schedule contract, blanket purchase agreement, or task or delivery order (each a "***Government Contract***");

(b) The Company or the Israeli Subsidiary has performed all of the obligations required to be performed by it and is entitled to all benefits under, and is not alleged to be in default in respect of, any Material Contract. Each of the Material Contracts is in full force and effect, subject only to the effect, if any, of applicable bankruptcy and other similar laws affecting the rights of creditors generally and rules of law governing specific performance, injunctive relief and other equitable remedies. There exists no default or event of default or event, occurrence, act or condition, with respect to the Company or the Israeli Subsidiary, with respect to any other contracting party, which, with the giving of notice, the lapse of time or the happening of any other event or condition, would reasonably be expected to (i) become a default or event of default under any Material Contract or (ii) give any third party (A) the right to declare a default or exercise any remedy under any Material Contract, (B) the right to a rebate, chargeback, refund, credit, penalty or change in delivery schedule under any Material Contract, (C) the right to accelerate the maturity or performance of any obligation of the Company or the Israeli Subsidiary under any Material Contract, or (D) the right to cancel, terminate or modify any Material Contract. Neither the Company nor the Israeli Subsidiary has received any notice or other communication regarding any actual or possible violation or breach of, default under, or intention to cancel or modify any Material Contract. Neither the Company nor the Israeli Subsidiary has any Liability for renegotiation of Government Contracts. Correct and complete copies of all Material Contracts have been provided to Purchaser prior to the Agreement Date.

2.16 Absence of Certain Changes. During the period between the Company Balance Sheet Date and the Agreement Date, each of the Company and the Israeli Subsidiary has conducted its business only in the ordinary course consistent with past practice and except as set forth in Schedule 2.16 of the Disclosure Letter:

(a) there has not occurred a Material Adverse Effect on the Company or the Israeli Subsidiary;

(b) neither the Company nor the Israeli Subsidiary has made or entered into any Contract or letter of intent with respect to any acquisition, sale or transfer of any asset of the Company or the Israeli Subsidiary (other than the sale or nonexclusive license of Company Products to its customers in the ordinary course of its business consistent with its past practice);

(c) except as required by GAAP, there has not occurred any change in accounting methods or practices (including any change in depreciation or amortization policies or rates or revenue recognition policies) by the Company or the Israeli Subsidiary or any revaluation by the Company or the Israeli Subsidiary of any of its assets;

(d) there has not occurred any declaration, setting aside, or payment of a dividend or other distribution with respect to any securities of the Company or the Israeli Subsidiary, or any direct or indirect redemption, purchase or other acquisition by the Company or the Israeli Subsidiary of any of its securities, or any change in any rights, preferences, privileges or restrictions of any of its outstanding securities;

(e) neither the Company nor the Israeli Subsidiary has entered into, amended or terminated any Material Contract and there has not occurred any default under any Material Contract to which the Company or the Israeli Subsidiary is a party or by which it is, or any of its assets and properties are, bound;

(f) there has not occurred any amendment or change to the Charter Documents or other equivalent organizational or governing documents of the Company or the Israeli Subsidiary;

(g) there has not occurred any increase in or modification of the compensation or benefits payable or to become payable by the Company or the Israeli Subsidiary to any of its directors, officers, employees or consultants, any material modification of any nonqualified deferred compensation plan, or any new loans or extension of existing loans to any such Persons (other than routine expense advances to employees of the Company or the Israeli Subsidiary consistent with past practice), and the Company and the Israeli Subsidiary have not entered into any Contract to grant or provide (nor has granted any) severance, acceleration of vesting or other similar benefits to any such Persons;

(h) there has not occurred the execution of any employment agreements or service Contracts or the extension of the term of any existing employment agreement or service Contract with any Person in the employ or service of the Company or the Israeli Subsidiary;

(i) there has not occurred any change in title, office or position, or reduction in the responsibilities of, or change in identity with respect to the management, supervisory or other key personnel of the Company or the Israeli Subsidiary, any termination of employment of any such employees, or any labor dispute or claim of unfair labor practices involving the Company or the Israeli Subsidiary;

(j) neither the Company nor the Israeli Subsidiary has incurred, created or assumed any Encumbrance (other than a Permitted Encumbrance) on any of its assets or properties, any Liability for borrowed money or any Liability as guaranty or surety with respect to the obligations of any other Person;

(k) neither the Company nor the Israeli Subsidiary has paid or discharged any Encumbrance or Liability which was not shown on the Company Balance Sheet or incurred in the ordinary course of business consistent with past practice since the Company Balance Sheet Date;

(l) neither the Company nor the Israeli Subsidiary has incurred any Liability to its directors, officers or shareholders (other than Liabilities to pay compensation or benefits in connection with services rendered in the ordinary course of business, consistent with past practice);

(m) neither the Company nor the Israeli Subsidiary has made any deferral of the payment of any accounts payable other than in the ordinary course of business, consistent with past practice, or given any discount, accommodation or other concession other than in the ordinary course of business, consistent with past practice, in order to accelerate or induce the collection of any receivable;

(n) neither the Company nor the Israeli Subsidiary has made any change in the manner in which it extends discounts, credits or warranties to customers or otherwise deals with its customers;

(o) there has been no damage, destruction or loss, whether or not covered by insurance, affecting the assets, properties or business of the Company or the Israeli Subsidiary;

(p) neither the Company nor the Israeli Subsidiary has sold, disposed of, transferred or licensed to any Person any rights to any Company Intellectual Property (other than in the ordinary course of business consistent with past practice, or has acquired or licensed from any Person any Intellectual Property) or sold, disposed of, transferred or provided a copy of any Company Source Code to any Person; and

(q) there has not occurred any announcement of, any negotiation by or any entry into any Contract by the Company or the Israeli Subsidiary to do any of the things described in the preceding clauses (a) through (p) (other than negotiations and agreements with Purchaser and their representatives regarding the transactions contemplated by this Agreement).

2.17 Transaction Fees. No broker, finder or investment banker is entitled to any brokerage, finder's or other fee or commission in connection with the transactions contemplated by this Agreement based upon arrangements made by or on behalf of the Company, its Israeli Subsidiary or its Affiliates. Set forth in Schedule 2.17 to the Company Disclosure Letter is the Company's good faith estimate of all Transaction Expenses (including Transaction Expenses reasonably anticipated to be incurred in the future) as of the Agreement Date.

2.18 Product Release. The Company has provided Purchaser a schedule of product releases, which schedule is attached as Schedule 2.18 of the Company Disclosure Letter (the "***Roadmap***"). The Roadmap has been prepared in good faith and with reasonable care by the Company and, subject to allocating appropriate resources, the Company has a good faith reasonable belief that it can achieve the release of products as described in the Roadmap, provided, however, that no assurance can be or is given that such release will be attained.

2.19 Environmental Matters.

(a) Except in compliance with Environmental Laws and in a manner that could not reasonably be expected to subject the Company or the Israeli Subsidiary to any Liability, no Hazardous Materials are present on any real property currently owned, operated, occupied, controlled or leased by the Company or the Israeli Subsidiary or were present on any other real property at the time it ceased to be owned, operated, occupied, controlled or leased by the Company or the Israeli Subsidiary. There are no aboveground or underground storage tanks, asbestos, or polychlorinated biphenyls present on or under any leased real property.

(b) The Company and the Israeli Subsidiary have conducted all Hazardous Material Activities relating to its business in compliance with all applicable Environmental Laws. Neither the Company nor the Israeli Subsidiary has exposed its employees or others to Hazardous Materials in violation of any applicable law or in a manner that would result in any Liability to the Company or the Israeli Subsidiary.

(c) Neither the Company nor the Israeli Subsidiary has, and they are not required to have, any permits pursuant to Environmental Laws in connection with its business or facilities. Neither the Company nor the Israeli Subsidiary has entered into any agreement that may require it to guarantee, reimburse, pledge, defend, hold harmless or indemnify any other party with respect to Liabilities arising out of or relating to the Hazardous Materials Activities of the Company or the Israeli Subsidiary or any third party.

(d) The Company and the Israeli Subsidiary have made available to Purchaser all environmental audits, environmental assessments, and documents relating to non-compliance with Environmental Laws in the possession, custody or control of the Company or the Israeli Subsidiary.

2.20 Propriety of Past Payments. None of the Company, the Israeli Subsidiary, any director, officer, employee or agent of the Company or the Israeli Subsidiary or any other Person for whom the Company may be responsible under applicable Legal Requirements or acting for or on behalf of the Company or the Israeli Subsidiary has, directly or indirectly, made any illegal contribution, gift, bribe, rebate, payoff, influence payment, kickback or other payment to any Person, private or public, regardless of form, whether in money, property or services, (i) to obtain favorable treatment for any Company Shareholder, the Company, the Israeli Subsidiary or any affiliate of the Company in securing business, (ii) to pay for favorable treatment for business secured for any Company Shareholder, the Company, the Israeli Subsidiary or any affiliate of the Company, (iii) to obtain special concessions, or for special concessions already obtained, for or in respect of any Company Shareholder, the Company, the Israeli Subsidiary or any affiliate of the Company or (iv) otherwise for the benefit of any Company Shareholder, the Company, the Israeli Subsidiary or any affiliate of the Company in violation of any U.S. federal, state, local, municipal, non-U.S., international, multinational or other Legal Requirement. None of the Company, the Israeli Subsidiary or to the Company's knowledge, any current director, officer, agent, employee or other Person acting on behalf of the Company or the Israeli Subsidiary, has used funds for unlawful contributions, gifts, entertainment or other unlawful expenses related to political activity or accepted or received any unlawful contribution, payment, gift, kickback, expenditure or other item of value. The Company and the Israeli Subsidiary are in compliance in all respects with all material statutory and regulatory provisions under the Foreign Corrupt Practices Act (15 U.S.C. §§78dd-1 et seq.) and international anti-bribery conventions and local anti-corruption and anti-bribery Legal Requirements in each jurisdiction in which the Company and the Israeli Subsidiary do business (including, but not limited to, laws based on the Anti-Bribery Convention of the Organization for Economic Co-operation and Development, Title 5 of the Israeli Penalty Law (Bribery Transactions) and the Israeli Prohibition on Money Laundering Law – 2000.

2.21 Company Contracts. Other than the Contracts listed on Schedule 2.21 of the Company Disclosure Letter and Contracts for engagement of professional advisors and directors, the Company (excluding the Israeli Subsidiary) has never been and is currently not a party to any Contracts.

2.22 Representations Complete. None of the representations or warranties made by the Company herein or in any exhibit or schedule hereto, including the Company Disclosure Letter, or in any certificate furnished by the Company or the Israeli Subsidiary pursuant to this Agreement, when all such documents are read together in their entirety, contains any untrue statement of fact, or omits to state any fact necessary in order to make the statements contained herein or therein, in the light of the circumstances under which made, not misleading.

2.23 No Other Representations. Except for the representations and warranties expressly and specifically made by the Company and/or the Israeli Subsidiary in this Agreement or certificates delivered by the Company and/or the Israeli Subsidiary pursuant to this Agreement, neither the Company nor the Israeli Subsidiary make any express or implied representation or warranty, and the Company and the Israeli Subsidiary hereby disclaim all other representations and warranties of any kind or nature, express or implied.

ARTICLE 3
Representations and Warranties of Company Shareholders

Each of the Company Shareholders represent and warrant to Purchaser, severally and not jointly, as of the Agreement Date and as of the Closing Date, as follows:

3.1 Power and Capacity. Such Company Shareholder possesses all requisite capacity necessary to carry out the transactions contemplated by this Agreement.

3.2 Enforceability; Noncontravention.

(a) This Agreement has been duly executed and delivered by such Company Shareholder. This Agreement is a valid and legally binding obligation, enforceable against such Company Shareholder in accordance with its terms, except as may be limited by (a) applicable bankruptcy, insolvency, reorganization or other laws of general application relating to or affecting the enforcement of creditors' rights generally and (b) the effect of rules of law governing the availability of equitable remedies.

(b) The execution, delivery and performance by such Company Shareholder of this Agreement does not, and the consummation of the transactions contemplated hereby will not, conflict with, or result in any violation of or default under (with or without notice or lapse of time, or both), or give rise to a right of termination, cancellation or acceleration of any obligation or loss of any benefit under, or require any consent, approval or waiver from any Person pursuant to, or result in the creation of any Encumbrance upon the Company Shares pursuant to (i) any Contract, order, judgment or decree to which the Company Shareholder is subject or (ii) any applicable Legal Requirements.

(c) No consent, approval, order or authorization of, or registration, declaration or filing with, any Governmental Entity or any other Person is required by or with respect to such Company Shareholder in connection with the execution and delivery of this Agreement or the consummation of the transactions contemplated hereby that would reasonably be expected to adversely affect the ability of such Company Shareholder to consummate the Share Purchase or any of the other transactions contemplated hereby.

3.3 Title to Shares. Such Company Shareholder owns of record and beneficially the Company Shares and Company Options (if any) as set forth opposite such Company Shareholder's name on the Signing Spreadsheet, the Signature Page of this Agreement and on Schedule 2.2(a) and Schedule 2.2(b) of the Company Disclosure Letter, and has good and valid title to such Company Shares and Company Options, and other than the restrictions on future transfers set forth in the Charter Documents and the Company Option Plans, such Company Shares and Company Options are currently free and clear of all Encumbrances, preemptive rights, rights of first refusal or similar right or limitation or "put" or "call" rights created by any Legal Requirements or any Contract to which such Company Shareholder is a party or by which such Company Shareholder is bound and, if transferred and/or sold to such Company Shareholder, were transferred in accordance with any Legal Requirement, right of first refusal or similar right or limitation, including those set forth in the Charter Documents, and, at Closing, shall deliver to Purchaser good and valid title to such Company Shares and any Company Shares received upon exercise of Company Options, free and clear of Taxes of the Selling Shareholder, all Encumbrances (other than Encumbrances created by Purchaser or set forth in the Charter Documents or Company Option Plans), pre-emptive rights and rights of first refusal or similar right or limitation or "put" or "call" rights created by any Legal Requirements or any Contract to which such Company Shareholder is a party or by which such Company Shareholder is bound. Such Company Shareholder does not own, and does not have the right to acquire, directly or indirectly, any other shares of Company Share Capital or Company Options, except as set forth on such Company Shareholder's Signature Page of this Agreement. Such Company Shareholder is not a party to any option, warrant, purchase right, or other Contract or commitment that could require such Company Shareholder to sell, transfer, or otherwise dispose of any Company Share Capital or Company Options (other than this Agreement) and no Person has any right to acquire any shares of Company Share Capital or any Company Options or other rights to purchase shares of Company Share Capital or other securities of the Company or the Israeli Subsidiary, from such Company Shareholder. Such Company Shareholder is not a party to any voting trust, proxy, or other agreement or understanding with respect to the voting of any share capital of the Company.

3.4 Litigation. There are no actions, suits, arbitrations, mediations, proceedings or claims pending or, to the knowledge of such Company der, threatened against such Company Shareholder that seek to restrain or enjoin the consummation of the transactions contemplated hereby.

3.5 Securities Laws. If such Company Shareholder shall receive Purchaser Ordinary Shares as part of the Aggregate Consideration, such y Shareholder hereby represents, warrants and covenants with respect to itself that:

(a) Such Company Shareholder is acquiring the Purchaser Ordinary Shares for such Company Shareholder's own account for investment purposes only and not with a view to, or for the resale in connection with, any "distribution" thereof for purposes of the Securities Act.

(b) Such Company Shareholder is (i) an accredited investor within the meaning of Regulation D prescribed by the Securities and Exchange Commission (the "***SEC***") pursuant to the Securities Act (a "***Regulation D Investor***"), and/or (ii) not a U.S. Person as defined in Regulation S promulgated under the Securities Act (a "***Regulation S Investor***"). If such Company Shareholder is a Regulation D Investor, such Company Shareholder also represents that: (x) it can afford to bear the economic risk of holding the Purchaser Ordinary Shares for an indefinite period and can afford to suffer the complete loss of such Company Shareholder's investment in the Purchaser Ordinary Shares; (y) its knowledge and experience in financial and business matters is such that such Company Shareholder is capable of evaluating the risks of the investment in the Purchaser Ordinary Shares; (z) only to the extent that such Company Shareholder is not an individual, it has not been organized for the purpose of acquiring the Purchaser Ordinary Shares, then all the equity owners of such Company Shareholders are Regulation D Investors. If such Company Shareholder is a Regulation S Investor, such Company Shareholder also represents that: (1) it is not a U.S. Person, (2) it was not organized under the laws of any United States jurisdiction, and was not formed for the purpose of investing in securities not registered under the Securities Act, (3) on the Agreement Date, the Regulation S Investor is outside the United States, (4) the Company Shareholder is not acquiring the Purchaser Ordinary Shares for the account or benefit of any U.S. Person, (5) it will not, during the forty-day period starting on the date of such Company Shareholder's purchase and receipt of the Purchaser Ordinary Shares, offer or sell any of the Purchaser Ordinary Shares (or create or maintain any derivative position equivalent thereto) in the United States, to or for the account or benefit of a U.S. Person other than in accordance with Regulation S or pursuant to an effective registration statement under the Securities Act or any available exemption therefrom and, in any case, in accordance with applicable state securities laws, (6) it will, after the expiration of such forty-day period, offer, sell, pledge or otherwise transfer the Purchaser Ordinary Shares (or create or maintain any derivative position equivalent thereto) only pursuant to an effective registration statement under the Securities Act or any available exemption therefrom and, in any case, in accordance with applicable state securities laws and (7) that the offer and issuance of the Purchaser Ordinary Shares to such Company Shareholder was made in an offshore transaction (as defined in Rule 902(h) of Regulation S), no directed selling efforts (as defined in Rule 902(c) of Regulation S) were made in the United States, and such Company Shareholder is not acquiring the Purchaser Ordinary Shares for the account or benefit of any U.S. Person. Such Company Shareholder has confirmed on the signature page hereto whether such Company Shareholder is a Regulation D Investor and/or a Regulation S Investor. In addition, such Company Shareholder that is a resident of the State of Israel has indicated on the signature page hereto whether or not such Company Shareholder is a qualified investor under the First Addendum to the Israeli Securities Law, 5728-1968; each such qualified investor understands the meaning of being so qualified, agrees to such designation and acknowledges that Purchaser may rely thereon to conduct a securities offering in Israel without a prospectus. Such Company Shareholder represents and warrants that the information set forth on its respective signature page is true and correct.

(c) Such Company Shareholder understands that, in connection with the acquisition of the Purchaser Ordinary Shares as contemplated herein, the Purchaser Ordinary Shares have not been and will not be registered under the Securities Act or registered or qualified under the securities laws of any U.S. state or other jurisdiction, in each case by reason of specific exemptions from the registration provisions of the Securities Act and the securities laws of such states or other jurisdictions, the availability of which depend upon, among other things, the bona fide nature of the investment intent and the accuracy of such Company Shareholder's representations as expressed herein and in response to Purchaser's inquiries, if any. Moreover, such Company Shareholder understands that Purchaser is under no obligation to register the Purchaser Ordinary Shares with the SEC.

(d) Such Company Shareholder understands that the Purchaser Ordinary Shares that such Company Shareholder is acquiring pursuant to this Agreement are and will be "restricted securities" under the Securities Act in that such securities will be acquired from Purchaser in a transaction not involving a public offering under the Securities Act, and that under U.S. federal and state laws and applicable regulations, such Purchaser Ordinary Shares may be resold without registration under the Securities Act only in certain limited circumstances and that otherwise such securities must be held indefinitely. In this connection, the Company Shareholder represents that it understands the resale limitations imposed by the Securities Act and is familiar with SEC Rule 144, as presently in effect, and the conditions which must be met in order for that rule to be available for resale of "restricted securities." Such Company Shareholder also acknowledges that such Company Shareholder may deemed to be an Affiliate of Purchaser and that, if so, certain resale limitations thereunder shall apply to such Company Shareholder for so long as such Company Shareholder remains an Affiliate and for three months thereafter.

(e) Such Company Shareholder has received and reviewed information about Purchaser, including the reports filed by Purchaser with the SEC, and has had an opportunity to discuss Purchaser's business, management and financial affairs with its management. Such Company Shareholder is aware of Purchaser's business affairs and financial condition and has acquired sufficient information about Purchaser to reach an informed and knowledgeable decision to acquire the Purchaser Ordinary Shares.

(f) Such Company Shareholder acknowledges that at no time was such Company Shareholder presented with or solicited by any publicly issued or circulated newspaper, mail, radio, television or other form of general advertising or solicitation in connection with the offer, sale and purchase of the Purchaser Ordinary Shares.

(g) Such Company Shareholder acknowledges that such Company Shareholder is fully aware of: (i) the speculative nature of the Purchaser Ordinary Shares; and (ii) the qualifications and backgrounds of the management of Purchaser.

(h) Such Company Shareholder has had an opportunity to review with his own Tax advisors the Tax consequences to him of the transactions contemplated by this Agreement, including the receipt of Purchaser Ordinary Shares. Such Company Shareholder understands that such Company Shareholder must rely solely on his advisors and not on any statements or representations by Purchaser, the Company or any of their respective attorneys, investment advisors, accountants or other agents with respect to Tax matters

(i) Such Company Shareholder acknowledges that such Company Shareholder either alone or with his purchaser representative(s) (as defined in Rule 501(h) of Regulation D, promulgated under the Securities Act), has such knowledge and experience in financial and business matters that such Company Shareholder is capable of evaluating the merits and risks of the Share Purchase, has the capacity to protect such Company Shareholder's own interests in connection with this transaction, and is financially capable of bearing a total loss of the Purchaser Ordinary Shares.

3.6 No Other Representations. Except for the representations and warranties expressly and specifically made by the Company Shareholder in this Agreement or certificates delivered by the Company pursuant to this Agreement, such Company Shareholder does not make any express or implied representation or warranty, and such Company Shareholder hereby disclaims all other representations and warranties of any kind or nature, express or implied.

ARTICLE 4
Representations and Warranties of Purchaser

Purchaser represents and warrants to the Company and to the Company Shareholders as follows:

4.1 Organization and Standing. Purchaser is a company duly organized and validly existing under the laws of its jurisdiction of organization. Purchaser is not in violation of any of the provisions of its articles or certificate of incorporation, as applicable, or bylaws or equivalent organizational or governing documents.

4.2 Authority; Noncontravention.

(a) Purchaser, has all requisite corporate power and authority to enter into this Agreement and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of Purchaser. This Agreement has been duly executed and delivered by Purchaser, and constitutes the valid and binding obligation of Purchaser, enforceable against Purchaser in accordance with its terms, subject only to the effect, if any, of (i) applicable bankruptcy and other similar laws affecting the rights of creditors generally and (ii) rules of law governing specific performance, injunctive relief and other equitable remedies.

(b) The execution and delivery of this Agreement by Purchaser does not, and the consummation of the transactions contemplated hereby will not, conflict with, or result in any violation of, or default under (with or without notice or lapse of time, or both), or give rise to a right of termination, cancellation or acceleration of any obligation or loss of a benefit under, or require any consent, approval or waiver from any Person pursuant to, (i) any provision of the articles or certificate of incorporation, as applicable, or bylaws or other equivalent organizational or governing documents of Purchaser, in each case as amended to date, or (ii) any applicable Legal Requirement, except where such conflict, violation, default, termination, cancellation or acceleration, individually or in the aggregate, would not be material to Purchaser's ability to consummate the Share Purchase or to perform its respective obligations under this Agreement.

(c) Except as required by applicable law or United States federal and state securities laws in connection with the issuance of the Purchaser Ordinary Shares, no consent, approval, order or authorization of, or registration, declaration or filing with, any Governmental Entity or any other Person is required by or with respect to Purchaser in connection with the execution and delivery of this Agreement or the consummation of the transactions contemplated hereby and thereby that would reasonably be expected to adversely affect the ability of Purchaser to consummate the Share Purchase or any of the other transactions contemplated hereby.

4.3 Capitalization; Valid Issuance.

(a) The authorized share capital of Purchaser consists of 40,000,000 Purchaser Ordinary Shares, of which 10,042,077 Purchaser Ordinary Shares were issued and outstanding as of November 5, 2012. As of November 5, 2012, there were outstanding options to purchase an aggregate of 2,042,543 Purchaser Ordinary Shares (of which options to purchase an aggregate of 883,990 Purchaser Ordinary Shares were exercisable).

(b) The Purchaser Ordinary Shares comprising the Aggregate Share Consideration, when issued by Purchaser in accordance with the terms of this Agreement, will be free and clear of any Encumbrances, pre-emptive rights and rights of first refusal, duly issued, fully paid and nonassessable and, assuming the accuracy of the representations and warranties of the Company Shareholders in Section 3.5 and on the Company Shareholder signature pages of this Agreement, issued in compliance with applicable law (including Israeli and United States federal and state securities laws).

4.4 Cash Resources. Purchaser has sufficient cash resources to pay the Closing Payment.

4.5 Purchaser SEC Documents; Purchaser Financial Statements.

(a) Purchaser has timely filed all forms, reports and documents required under the Exchange Act to be filed with the SEC since January 1, 2010 (the "***Purchaser SEC Documents***"). Each of the Purchaser SEC Documents complied in all material respects with all applicable requirements of the Exchange Act and the rules and regulations promulgated thereunder, each as in effect on the dates such forms, reports, and documents were filed, and no such statement or report contained an untrue statement of a material fact or omitted to state any material fact necessary to make the statements made therein, in light of the circumstances under which they were made, not misleading.

(b) The consolidated financial statements of Purchaser and its consolidated subsidiaries for the year ended December 31, 2011 and the unaudited consolidated financial statements of Purchaser for the six months ended June 30, 2012 included in the Purchaser SEC Documents (the *"**Purchaser Financial Statements**"*) (i) were prepared in accordance with U.S. GAAP applied on a consistent basis throughout the periods covered, except as may be indicated in the notes to such financial statements, and except that unaudited financial statements may not contain footnotes and are subject to year-end audit adjustments, and (ii) fairly present the consolidated financial position of Purchaser and its subsidiaries as of the respective dates thereof and the consolidated results of operations of Purchaser and its subsidiaries for the periods covered thereby, and (iii) are true, complete and correct in all material respects. Except as reflected or reserved against in the Purchaser Financial Statements, Purchaser has no material liabilities, except liabilities and obligations (i) incurred in the ordinary course of business or (ii) that would not be required to be reflected or reserved against the balance sheet of Purchaser prepared in accordance with GAAP. Neither the Purchaser nor any of its subsidiaries has "off-balance sheet arrangements" (as defined in Item 303(a)(4)(ii) of Regulation S-K under the Exchange Act).

(c) Purchaser and its subsidiaries maintain disclosure controls and procedures required by Rule 13a-15 or 15d-15 under the Exchange Act; such controls and procedures are effective to ensure that all material information concerning Purchaser and its subsidiaries is made known on a timely basis to the individuals responsible for the preparation of Purchaser's filings with the SEC. Purchaser maintains a system of internal accounting controls sufficient to provide reasonable assurance that (i) transactions are executed in accordance with management's general or specific authorizations, (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with GAAP and to maintain asset accountability, (iii) access to assets is permitted only in accordance with management's general or specific authorization, and (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

(d) Purchaser's internal control over financial reporting was effective as of September 30, 2012. Purchaser has not identified any material weakness in its internal control over financial reporting in the nine-month period ended September 30, 2012.

4.6 Litigation. There is no pending Legal Proceeding, and (to the knowledge of Purchaser) no Person has threatened to commence any Legal Proceeding that challenges, or that may have the effect of preventing, delaying, making illegal or otherwise interfering with, the Share Purchase. To the knowledge of Purchaser, no event has occurred, and no claim, dispute or other condition or circumstance exists, that will, or that would reasonably be expected to, give rise to or serve as a basis for the commencement of any such Legal Proceeding.

4.7 Transaction Fees. No broker, finder or investment banker is entitled to any brokerage, finder's or other fee or commission in connection with the transactions contemplated by this Agreement based upon arrangements made by or on behalf of the Purchaser or its Affiliates.

4.8 No Other Representations. Except for the representations and warranties expressly and specifically made by Purchaser in this Agreement or certificates delivered by the Company pursuant to this Agreement, Purchaser does not make any express or implied representation or warranty, and Purchaser hereby disclaims all other representations and warranties of any kind or nature, express or implied.

ARTICLE 5
Conduct Prior to the Closing

5.1 Conduct of Business of the Company. During the period from the Agreement Date and continuing until the earlier of the termination of this Agreement and the Closing (except to the extent expressly provided otherwise in this Agreement or as consented to in writing by Purchaser, which consent shall not be unreasonably withheld or delayed):

(a) each of the Company and the Israeli Subsidiary shall conduct its business solely in the usual, regular and ordinary course in substantially the same manner as heretofore conducted (including spending on customer acquisition costs in accordance with the Marketing Budget, on a pro rata basis and consistent with past practice) and in compliance with all applicable Legal Requirements; and

(b) each the Company and the Israeli Subsidiary shall use commercially reasonable best efforts consistent with past practice to (A) pay and perform all of its debts and other obligations (including Taxes) when due, (B) collect accounts receivable when due and not extend credit outside of the ordinary course of business, (C) sell Company Products consistent with past practices as to license, service and maintenance terms, incentive programs, and revenue recognition and (D) preserve intact its present business organizations, keep available the services of its present officers and key employees and preserve its relationships with customers, suppliers, distributors, licensors, licensees, and others having business dealings with it; and

(c) the Company shall promptly notify Purchaser of any change, occurrence or event not in the ordinary course of its Business or the Israeli Subsidiary's business, or of any change, occurrence or event which, in each case, individually or in the aggregate with any other changes, occurrences and events, would reasonably be expected to be materially adverse to the Company or the Israeli Subsidiary or cause any of the conditions to closing set forth in ARTICLE 7 not to be satisfied.

5.2 Restrictions on Conduct of Business of the Company. Without limiting the generality or effect of the provisions of Section 5.1, except as set forth on Schedule 5.2 of the Company Disclosure Letter, during the period from the Agreement Date and continuing until the earlier of the termination of this Agreement and the Closing, the Company shall not, and shall cause the Israeli Subsidiary not to, do, cause or permit any of the following (except to the extent expressly provided otherwise in this Agreement or as consented to in writing by Purchaser, which consent shall not be unreasonably withheld):

(a) Charter Documents. Cause or permit any amendments to the Charter Documents or equivalent organizational or governing documents;

(b) Dividends; Changes in Share Capital. Declare or pay any dividends on or make any other distributions (whether in cash, stock or property) in respect of any of its share capital, or split, combine or reclassify any of its share capital or issue or authorize the issuance of any other securities in respect of, in lieu of or in substitution for shares of its share capital, or repurchase or otherwise acquire, directly or indirectly, any shares of its share capital except from former employees, non-employee directors and consultants in accordance with agreements providing for the repurchase of shares in connection with any termination of service, except that (i) the Special Cash Dividend may be declared (but not paid) and (ii) outstanding Company Options may be exercised subject to Section 6.16;

(c) Material Contracts. Enter into any Contract that would constitute a Material Contract or a Contract requiring a novation or consent in connection with the Share Purchase, or violate, terminate, amend, or otherwise modify (including by entering into a new Contract with such party or otherwise) or waive any of the material terms of any of its Material Contracts, other than as required for the Company or the Israeli Subsidiary's spending on customer acquisition costs in accordance with the budget attached hereto as Schedule 5.2(c) (the "***Marketing Budget***"), on a pro rata basis and consistent with past practice;

(d) Issuance of Securities. Issue, deliver or sell or authorize or propose the issuance, delivery or sale of, or purchase or propose the purchase of, any Company Voting Debt or any shares of Company Share Capital or Israeli Subsidiary Share Capital or securities convertible into, or subscriptions, rights, warrants or options to acquire, or other Contracts of any character obligating it to issue any such shares or other convertible securities, other than: (i) the issuance of shares of Company Share Capital pursuant to the exercise of Company Options that are outstanding as of the Agreement Date; and (ii) the issuance of Company Ordinary Shares upon conversion of Company Preferred Shares outstanding on the Agreement Date;

(e) Employees; Consultants; Independent Contractors. (i) Hire any additional officers or other employees, or any consultants or independent contractors, (ii) terminate the employment, change the title, office or position, or materially reduce the responsibilities of any management, supervisory or other key personnel of the Company or the Israeli Subsidiary, (iii) other than as required pursuant to Section 7.3(f) hereof, enter into, amend or extend the term of any employment or consulting agreement with any officer, employee, consultant or independent contractor, or (iv) enter into any Contract with a labor union or collective bargaining agreement;

(f) Loans and Investments. Make any loans or advances (other than routine expense advances to employees of the Company or the Israeli Subsidiary consistent with past practice) to, or any investments in or capital contributions to, any Person, or forgive or discharge in whole or in part any outstanding loans or advances, or prepay any Indebtedness for borrowed money;

(g) Intellectual Property. Transfer or license from any Person any rights to any Intellectual Property, other than in the ordinary course of business consistent with past practice, or transfer or license to any Person any rights to any Company Intellectual Property, or transfer or provide a copy of any Company Source Code to any Person (including any current or former employee or consultant of the Company or the Israeli Subsidiary or any contractor or commercial partner of the Company or the Israeli Subsidiary) (other than providing access to Company Source Code to current employees and consultants of the Company or the Israeli Subsidiary involved in the development of the Company Products on a need to know basis, consistent with past practices);

(h) Patents. Take any action regarding a patent, patent application or other Intellectual Property right, other than filing continuations for existing patent applications or completing or renewing registrations of existing patents, domain names, trademarks or service marks in the ordinary course of business;

(i) Dispositions. Sell, lease, license or otherwise dispose of any of its properties or assets, other than sales and nonexclusive licenses of Company Products in the ordinary course of business consistent with its past practice, or enter into any Contract with respect to the foregoing;

(j) Indebtedness. Incur any Indebtedness for borrowed money or guarantee any such Indebtedness;

(k) Payment of Obligations. Pay, discharge or satisfy (i) any Liability to any Person who is an officer, director or Company Shareholder of the Company (other than compensation due for services as an officer or director) or (ii) any claim or Liability arising otherwise than in the ordinary course of business, other than the payment, discharge or satisfaction of Liabilities reflected or reserved against in the Company Financial Statements and Transaction Expenses, or defer payment of any accounts payable other than in the ordinary course of business consistent with past practice, or give any discount, accommodation or other concession other than in the ordinary course of business consistent with past practice, in order to accelerate or induce the collection of any receivable;

(l) Capital Expenditures. Incur or make any capital expenditures, capital additions or capital improvements, other than in the ordinary course of business and not exceeding $100,000;

(m) Insurance. Materially change the amount of any insurance coverage;

(n) Termination or Waiver. Cancel, release or waive any claims or rights held by the Company;

(o) Company Employee Plans; Pay Increases. Except in each case as required pursuant to this Agreement, under applicable Legal Requirements, or as set forth on Schedule 5.2(o): (i) adopt or amend any Company Employee Plan or amend any compensation, benefit, entitlement, grant or award provided or made under any such plan, (ii) pay or accrue any special bonus or special remuneration to any employee or non-employee director or consultant (provided that Purchaser is provided notice of such bonus or remuneration), or (iii) other than as required pursuant to Section 7.3(f) hereof, increase the salaries, wage rates or fees of its employees or consultants (other than as disclosed to Purchaser and as set forth on Schedule 5.2(o));

(p) Severance Arrangements. Except in each case as required under applicable Legal Requirements, grant or pay, or enter into any Contract providing for the granting of any severance, retention or termination pay (whether in cash or equity), or the acceleration of vesting or other benefits, to any Person (other than payments or acceleration which have been disclosed to Purchaser and are set forth on Schedule 5.2(p) of the Company Disclosure Letter);

(q) Lawsuits; Settlements. (i) Commence a lawsuit other than (A) for the routine collection of bills, (B) in such cases where the Company or the Israeli Subsidiary in good faith determines that failure to commence suit would result in the material impairment of a valuable aspect of its business (provided that it consults with Purchaser prior to the filing of such a suit), or (C) for a breach of this Agreement or (ii) settle or agree to settle any pending or threatened lawsuit or other dispute;

(r) Acquisitions. Acquire or agree to acquire by merging or consolidating with, or by purchasing a substantial portion of the assets of, or by any other manner, any business or any corporation, partnership, association or other business organization or division thereof, or otherwise acquire or agree to acquire any assets which are material, individually or in the aggregate, to the Business, or enter into any Contract with respect to a joint venture, strategic alliance or partnership;

(s) Taxes. Other than as required under applicable law or with respect to any Tax ruling contemplated in or in accordance with this Agreement, including the Domiciliation Ruling, make or change any election in respect of Taxes, adopt or change any accounting method in respect of Taxes, file any federal, state, or foreign income Tax Return or any other material Tax Return, file any amendment to any Tax Return, enter into any Tax sharing or similar agreement or closing agreement, settle any claim or assessment in respect of Taxes, or consent to any extension or waiver of the limitation period applicable to any claim or assessment in respect of Taxes, or enter into intercompany transactions giving rise to deferred gain or loss of any kind, or take any other similar action relating to the filing of any Tax Return or the payment of any Tax, if such election, adoption or other action would have the effect of increasing the Tax liability of the Company or the Israeli Subsidiary for any period ending after the Closing Date or decreasing any Tax attribute of the Company or the Israeli Subsidiary existing on the Closing Date that would result in a Tax liability of the Company or the Israeli Subsidiary after the Closing Date;

(t) Accounting. Change accounting methods or practices (including any change in depreciation or amortization policies) or revalue any of its assets (including writing down the value of inventory or writing off notes or accounts receivable otherwise than in the ordinary course of business), except in each case as required by changes in GAAP as concurred with its independent accountants and after notice to Purchaser;

(u) Real Property. Enter into any agreement for the purchase, sale or lease of any real property;

(v) Encumbrances. Place or allow the creation of any Encumbrance (other than a Permitted Encumbrance) on any of its properties;

(w) Warranties, Discounts. Change the manner in which it provides warranties, discounts or credits to customers;

(x) Interested Party Transactions. Enter into any Contract in which any officer, director, employee, agent or Company Shareholder of the Company (or any member of their immediate families) has an interest under circumstances that, if entered immediately prior to the Agreement Date, would require that such Contract be listed on Schedule 2.11(a) of the Company Disclosure Letter; and

(y) Other. Agree, resolve or commit to do any of the actions described in clauses (a) through (x) in this Section 5.2.

5.3 Notices of Certain Events. During the period from the Agreement Date and continuing until the earlier of the termination of this Agreement and the Closing, the Company, the Israeli Subsidiary and each Company Shareholder (as it relates to information about such Company Shareholder only) shall promptly notify Purchaser, and Purchaser shall promptly notify the Company and the Shareholders' Agent of:

(a) any notice or other communication from any Person alleging that the consent of such Person is or may be required in connection with the Share Purchase or this Agreement;

(b) any notice or other communication from any Governmental Entity (i) delivered in connection with the Share Purchase or this Agreement, or (ii) indicating that a Company Authorization is revoked or about to be revoked or that a Company Authorization is required in any jurisdiction in which such Company Authorization has not been obtained, which revocation or failure to obtain has had or would reasonably be expected to be material to the Company or Purchaser, as the case may be;

(c) any actions, suits, claims, investigations or proceedings commenced or, to their respective knowledge, threatened against, relating to or involving or otherwise affecting the Company or the Israeli Subsidiary or Purchaser, as the case may be, that, if pending on the date of this Agreement, would have been required to have been disclosed pursuant to the Agreement, as the case may be, or that relate to the consummation of the Share Purchase;

(d) any inaccuracy in or breach of any of their respective representations, warranties or covenants contained in this Agreement;

(e) any breach of any material covenant or obligation of the relevant party;

(f) any event, condition, fact or circumstance that occurs, arises or exists after the date of this Agreement and that causes or constitutes, or could reasonably be seen as likely to cause or constitute, an inaccuracy in or breach of any representation or warranty made by the relevant party in this Agreement; and

(g) any event, condition, fact or circumstance that would make the timely satisfaction of any of the conditions set forth in ARTICLE 7 impossible or unlikely.

ARTICLE 6
Additional Agreements

6.1 Agreements Pertaining to the Aggregate Consideration.

(a) Restrictions on Transfer. Any transfer of Purchaser Ordinary Shares issued pursuant to this Agreement must comply with all applicable securities laws (and Purchaser may require that Company Securityholders provide a satisfactory opinion of counsel to this effect, except for transfers pursuant to Rule 144). Purchaser may issue appropriate “stop-transfer” instructions to its transfer agent to prevent the violation of applicable securities laws.

(b) Legends. The certificates evidencing the Purchaser Ordinary Shares issued pursuant to this Agreement will bear the following legend reflecting the foregoing restrictions on the transfer of such securities, in addition to any legend required by applicable U.S. state securities laws:

(i) **"THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED. THEY MAY NOT BE SOLD, OFFERED FOR SALE, TRANSFERRED, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF A REGISTRATION STATEMENT IN EFFECT WITH RESPECT TO THE SECURITIES UNDER SUCH ACT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM REGISTRATION. THE ISSUER MAY REQUIRE AN OPINION OF COUNSEL OR OTHER EVIDENCE SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED OR UNLESS SOLD PURSUANT TO RULE 144 UNDER SUCH ACT."**

(ii) Removal of Legend. The Purchaser Ordinary Shares issued pursuant to this Agreement will no longer be subject to the legends referred to in clause (i) above upon the termination or lapse of all restrictions and conditions on transfer under applicable securities laws or pursuant to a disposition that is permitted thereunder. After such time, and upon a Company Securityholder's request, a new certificate or certificates representing the Purchaser Ordinary Shares held in such Company Securityholder's name not repurchased or paid to the Company pursuant to ARTICLE 9 shall be issued without the legends referred to above and delivered to such Company Securityholder, provided that Purchaser is provided with all certificates, opinions and other information it may reasonably request in connection with such request.

6.2 Filings and Consents.

(a) Filings. Each party shall use reasonable best efforts to file, as soon as practicable after the date of this Agreement, all notices, reports and other documents required to be filed by such party with any Governmental Entity with respect to the Share Purchase and other transactions contemplated hereunder (the "***Transactions***"), and to submit promptly any additional information requested by any such Governmental Entity. The Company and Purchaser shall respond as promptly as practicable to any inquiries or requests received from any Governmental Entity in connection with antitrust or related matters. Subject to the confidentiality provisions of the Confidentiality Agreement (as defined in Section 6.4(b)), Purchaser and the Company each shall promptly supply the other with any information which may be required in order to effectuate any filings (including applications) pursuant to (and to otherwise comply with its obligations set forth in) this Section 6.2(a). Except where prohibited by applicable Legal Requirements or any Governmental Entity, and subject to the confidentiality provisions of the Confidentiality Agreement, the Company shall: (i) cooperate with Purchaser with respect to any filings with any Governmental Entity made by Purchaser in connection with the Transactions; (ii) permit Purchaser to review (and consider in good faith the views of Purchaser in connection with) any documents before submitting such documents to any Governmental Entity in connection with the Transactions; (iii) inform Purchaser of any payments, fees or penalties required by any Governmental Entity in connection with any such filings and (iv) promptly provide Purchaser with copies of all filings, notices and other documents (and a summary of any oral presentations) made or submitted by the Company with or to any Governmental Entity in connection with the Transactions. Except where prohibited by applicable Legal Requirements or any Governmental Entity, and subject to the confidentiality provisions of the Confidentiality Agreement, Purchaser shall: (i) cooperate with the Company, the Shareholders' Agent and the Company Shareholders with respect to any filings with any Governmental Entity made by the Company, the Shareholders' Agent and/or the Company Shareholders in connection with the Transactions; (ii) provide the Company and the Shareholders' Agent a reasonable opportunity to review (and consider in good faith any comments of the Company and the Shareholders' Agent in connection with) any documents before submitting such documents to any Governmental Entity in connection with the Transactions; and (iii) promptly provide the Company and the Shareholders' Agent with copies of all filings, notices and other documents (and a summary of any oral presentations) made or submitted by the Purchaser with or to any Governmental Entity in connection with the Transactions.

(b) Efforts. Subject to Section 6.2(c), Purchaser, the Company and the Israeli Subsidiary, as applicable, shall use reasonable best efforts to take, or cause to be taken, all actions necessary to consummate the Transactions. Without limiting the generality of the foregoing, but subject to Section 6.2(c), each party to this Agreement: (i) shall make all filings (if any) and give all notices (if any) required to be made and given by such party in connection with the Transactions; and (ii) shall use commercially reasonable efforts to obtain each consent (if any) required to be obtained (pursuant to any applicable Legal Requirement or Contract, or otherwise) by such party in connection with the Transactions.

(c) Limitations. Notwithstanding anything to the contrary contained in Section 6.2(b) or elsewhere in this Agreement, Purchaser shall not have any obligation under this Agreement: (i) to divest or agree to divest (or cause any of its Subsidiaries to divest or agree to divest) any of its businesses, product lines or assets, or to take or agree to take (or cause any of its Subsidiaries to take or agree to take) any other action or to agree (or cause any of its subsidiaries to agree) to any limitation or restriction on any of its businesses, product lines or assets; or (ii) to contest any Legal Proceeding relating to the Transactions.

6.3 No Solicitation.

(a) From and after the date of this Agreement until the Closing or termination of this Agreement pursuant to ARTICLE 8, none of the Company Shareholders nor the Company nor the Israeli Subsidiary will, nor will any of them authorize or permit any of their respective officers, directors, or employees or any investment banker, attorney or other advisor or representative retained by any of them (all of the foregoing collectively being the "***Company Representatives***") to, directly or indirectly, (i) solicit, initiate, seek, entertain, encourage, facilitate, support or induce the making, submission or announcement of any inquiry, expression of interest, proposal or offer that constitutes, or that would reasonably be expected to lead to, an Acquisition Proposal (as hereinafter defined), (ii) enter into, participate in, maintain or continue any communications (except solely to provide written notice as to the existence of these provisions) or negotiations regarding, or deliver or make available to any Person any non-public information with respect to, or take any other action regarding, any inquiry, expression of interest, proposal or offer that constitutes, or that would reasonably be expected to lead to, an Acquisition Proposal, (iii) agree to, accept, approve, endorse or recommend (or publicly propose or announce any intention or desire to agree to, accept, approve, endorse or recommend) any Acquisition Proposal, (iv) enter into any letter of intent or any other Contract contemplating or otherwise relating to any Acquisition Proposal, (v) submit any Acquisition Proposal to the vote of any securityholders of Company or the Israeli Subsidiary or (vi) enter into any other transaction or series of transactions not in the ordinary course of the Company's business, the consummation of which would reasonably be expected to impede, interfere with, prevent or materially delay the Share Purchase. Each of the Company Shareholders, the Company and the Israeli Subsidiary will immediately cease and cause to be terminated any and all existing activities, discussions or negotiations with any Persons conducted prior to or on the date of this Agreement with respect to any Acquisition Proposal. If any Company Representative, whether in his or her capacity as such or in any other capacity, takes any action that the Company is obligated pursuant to this Section 6.3(a)6.2(c) not to authorize or permit such Company Representative to take, then the Company or the Company Shareholders shall be deemed for all purposes of this Agreement to have breached this Section 6.2(c).

"***Acquisition Proposal***" shall mean, with respect to the Company, any agreement, offer, proposal or bona fide indication of interest (other than this Agreement or any other offer, proposal or indication of interest by Purchaser), or any public announcement of intention to enter into any such agreement or of (or intention to make) any offer, proposal or bona fide indication of interest, relating to, or involving: (A) any acquisition or purchase from the Company or the Israeli Subsidiary, or from the Company Shareholders, by any Person or Group (as hereinafter defined) of more than a 10% interest in the total outstanding voting securities of Company or the Israeli Subsidiary or any tender offer or exchange offer that if consummated would result in any Person or Group beneficially owning 10% or more of the total outstanding voting securities of the Company or the Israeli Subsidiary or any merger, consolidation, business combination or similar transaction involving the Company or the Israeli Subsidiary; or (B) any sale, lease, mortgage, pledge, exchange, transfer, license (other than in the ordinary course of business), acquisition, or disposition of more than 10% of the assets of the Company or the Israeli Subsidiary in any single transaction or series of related transactions.

"***Group***" shall have the definition ascribed to such term under Section 13(d) of the Exchange Act, the rules and regulations thereunder and related case law.

(b) The Company and any Company Shareholder shall immediately (but in any event, within 24 hours) notify Purchaser orally and in writing after receipt by the Company or the Israeli Subsidiary or such Company Shareholder (or, to the knowledge of the Company, by any of the Company Representatives), of (i) any Acquisition Proposal, (ii) any inquiry, expression of interest, proposal or offer that constitutes, or would reasonably be expected to lead to, an Acquisition Proposal, (iii) any other notice that any Person is considering making an Acquisition Proposal, or (iv) any request for nonpublic information relating to the Company or the Israeli Subsidiary or for access to any of the properties, books or records of the Company or the Israeli Subsidiary by any Person or Persons other than Purchaser. Such notice shall describe (1) the material terms and conditions of such Acquisition Proposal, inquiry, expression of interest, proposal, offer, notice or request, and (2) the identity of the Person or Group making any such Acquisition Proposal, inquiry, expression of interest, proposal, offer, notice or request. The Company shall keep Purchaser fully informed of the status and details of, and any modification to, any such inquiry, expression of interest, proposal or offer and any correspondence or communications related thereto and shall provide to Purchaser a true, correct and complete copy of such inquiry, expression of interest, proposal or offer and any amendments, correspondence and communications related thereto, if it is in writing, or a reasonable written summary thereof, if it is not in writing.

6.4 Confidentiality; Public Disclosure.

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(a) The parties hereto acknowledge that Purchaser and the Company have previously executed a non-disclosure Agreement, dated May 9, 2012, as amended on July 17, 2012 (the "***Confidentiality Agreement***") which shall continue in full force and effect in accordance with its terms. The Shareholders' Agent hereby agrees to be bound by the terms and conditions of the Confidentiality Agreement to the same extent as though the Shareholders' Agent were a party thereto. With respect to the Shareholders' Agent, as used in the Confidentiality Agreement the term "***Confidential Information***" shall include information relating to the Share Purchase or this Agreement received by the Shareholders' Agent after the Closing or relating to the period after the Closing; provided however that such limitation shall not prevent the Shareholders' Agent from filing any lawsuits to enforce this Agreement.

(b) The Company shall not issue any press release or other public statement relating to the terms of this Agreement or the transactions contemplated hereby or use Purchaser's name or refer to Purchaser directly or indirectly in connection with Purchaser's relationship with the Company in any media interview, advertisement, news release, press release or professional or trade publication, or in any print media, whether or not in response to an inquiry, without the prior written approval of Purchaser, unless required by law and except as reasonably necessary for the Company to obtain the consents and approvals of Company Shareholders and other third parties contemplated by this Agreement. Notwithstanding anything herein or in the Confidentiality Agreement, Purchaser and the Company shall mutually agree on the content of the press release, blog post or other public statement announcing the Share Purchase and thereafter Purchaser may make such other public statements regarding this Agreement or the transactions contemplated hereby as Purchaser may determine is reasonably appropriate

(c) Purchaser shall be permitted to issue any press release or publicly file any information as is required by any Legal Requirement or stock market rule. The parties agree to announce this Agreement and the consummation of the Transactions to the Company's employees, customers, vendors and strategic partners at such time and in such form as is mutually agreed upon by all parties to this Agreement.

6.5 Reasonable Efforts. Each of the parties hereto agrees to use its commercially reasonable efforts, and to cooperate with each other party hereto, to take, or cause to be taken, all actions, and to do, or cause to be done, all things necessary, appropriate or desirable to consummate and make effective, in the most expeditious manner practicable, the Share Purchase and the other transactions contemplated hereby, including the satisfaction of the respective conditions set forth in ARTICLE 7, and including to execute and deliver such other instruments and do and perform such other acts and things as may be necessary or reasonably required for effecting completely the consummation of the Share Purchase and the other transactions contemplated hereby.

6.6 Third Party Consents; Notices.

(a) The Company shall use commercially reasonable efforts to obtain prior to the Closing, and deliver to Purchaser at or prior to the Closing, all consents, waivers and approvals under each Contract listed or described on Schedule 2.3(b)(ii)(B) of the Company Disclosure Letter (and any Contract entered into after the Agreement Date that would have been required to be listed or described on Schedule 2.3(b)(ii)(B) of the Company Disclosure Letter if entered into prior to the Agreement Date).

(b) The Company shall give all notices and other information required to be given to the employees of the Company and any collective bargaining unit representing any group of employees of the Company, under any applicable Legal Requirements in connection with the Transactions.

6.7 Litigation. Until the Closing, the Company will (i) notify Purchaser in writing promptly after learning of any Legal Proceeding initiated by or against it or the Israeli Subsidiary, or known by the Company to be threatened against the Company or the Israeli Subsidiary, or any of their respective directors, officers, employees or Company Shareholders in their capacity as such (a "***New Litigation Claim***"), (ii) notify Purchaser of ongoing material developments in any New Litigation Claim and (iii) consult in good faith with Purchaser regarding the conduct of the defense of any New Litigation Claim.

6.8 Access to Information.

(a) During the period commencing on the Agreement Date and continuing until the earlier of the termination of this Agreement and the Closing, (i) the Company shall afford Purchaser and its accountants, counsel and other representatives, reasonable access upon reasonable notice and during business hours to (A) all of the Company's properties, books, Contracts and records and (B) all other information concerning the business, properties and personnel (subject to restrictions imposed by applicable Legal Requirement) of the Company as Purchaser may reasonably request, and (ii) the Company shall provide to Purchaser and its accountants, counsel and other representatives correct and complete copies of the Company's (A) internal financial statements, (B) Tax Returns, Tax elections and all other records and workpapers relating to Taxes, (C) a schedule of any deferred intercompany gain or loss with respect to transactions to which the Company has been a party and (D) receipts for any Taxes paid to Tax Authorities.

(b) Subject to compliance with applicable Legal Requirements, from the Agreement Date until the earlier of the termination of this Agreement and the Closing, the Company shall confer from time to time as requested by Purchaser with one or more representatives of Purchaser to discuss any material changes or developments in the operational matters of the Company and the general status of the ongoing operations of the Company.

(c) No information or knowledge obtained by Purchaser during the pendency of the transactions contemplated by this Agreement in any investigation pursuant to this Section 6.8 shall affect or be deemed to modify any representation, warranty, covenant, condition or obligation under this Agreement.

6.9 Closing Spreadsheet. The Company shall prepare and deliver to Purchaser, at or prior to the Closing, a spreadsheet, certified as complete and correct by the Authorized Person as of the Closing Date (the "***Closing Spreadsheet***") in a form reasonably satisfactory to Purchaser prior to the Closing, which Closing Spreadsheet shall be dated as of the Closing Date and shall set forth all of the following information (in addition to the other required data and information specified therein), as of the Closing Date and immediately prior to the Closing: (a) the names of all the Company Shareholders and Company Optionholders and their respective street and email addresses (if available), telephone number (if available), Israeli identification number (if available), taxpayer identification numbers (if any), bank information (if available) (including the respective bank name and number, branch name and address, swift number and account number) and for each current or previous Company Optionholder receiving payment hereunder, such additional details reasonably required by Purchaser or the Paying Agent so as to properly compute any applicable withholding Taxes for payroll deductions, if and to the extent applicable; (b) the number and class of Company Shares (including exercised Company Options) held by, or subject to the Company Options held by, such Persons and, in the case of outstanding shares, the respective certificate numbers; (c) the number of Company Shares subject to and the exercise price per share in effect for each Company Option held by each Company Optionholder, the expiration date of each Company Option, the date of commencement of the two year holding period with the 102 Trustee, if granted under Section 102(b) and whether the Optionholder is an employee of the Company and specifying the Section and subsection of the Israeli Income Tax Ordinance pursuant to which such Company Option was granted; (d) a calculation of the portion of the Aggregate Consideration (including the number of Purchaser Ordinary Shares each Company Shareholder and Company Optionholder will be entitled to receive out of the Aggregate Share Consideration, and the portion of the Aggregate Cash Consideration each Company Securityholder will be entitled to receive in each of the Closing Payment, the Deferred Payment, the Contingent Payment and the Contingent Ruling Payment (assuming full payment of each)) payable to such Company Shareholder or Company Optionholder, as applicable, pursuant to this Agreement; (e) a calculation of the Aggregate Cash Consideration, Aggregate Share Consideration, Aggregate Consideration, Fully-Diluted Company Ordinary Shares, Option Amount, and Pro Rata Share; (f) the amount of the Aggregate Cash Consideration and the Aggregate Share Consideration to be paid by Purchaser to the Paying Agent and to the 102 Trustee; and (g) a calculation of the portion of the Special Cash Dividend each Company Securityholder will be entitled to receive upon payment of the Special Cash Dividend (assuming full payment of such).

6.10 Expenses. All other costs and expenses incurred in connection with this Agreement and the transactions contemplated hereby (including Transaction Expenses) shall be paid by the party incurring such expense.

6.11 Employees.

(a) The Company acknowledges and agrees that, notwithstanding any confidentiality, non-compete or intellectual property ownership obligations of any Company Employee and Consultants, the Company Employees and Consultants shall be permitted to engage in the business of the Company on behalf of Purchaser.

(b) The Company shall continue to pay until the Closing Date all salaries, benefits and other entitlements to its Company Employees and Consultants in a timely manner. The Company shall continue to set aside until the Closing Date all benefits under the Company Employee Plans to which any Company Employee or former Company Employee is or may be entitled including, *inter alia*, severance pay, termination notice, accrued and unpaid vacation days, leave and health.

(c) Purchaser shall present a retention package to the Employees listed in Schedule 7.3(f)(i), pursuant to the terms listed in Schedule 6.11(c).

6.12 Certain Closing Certificates and Documents. The Company shall prepare and deliver to Purchaser, a draft of each of the Company Net Working Capital Certificate, Transaction Expenses Certificate and the Closing Spreadsheet not later than three (3) Business Days prior to the Closing Date. The Company shall prepare and deliver the final Company Net Working Capital Certificate, the Transaction Expenses Certificate and the Closing Spreadsheet to Purchaser at or prior to the Closing. Without limiting the generality or effect of the foregoing or the provisions of Section 6.8, Company shall provide to Purchaser, promptly after Purchaser's request, copies of the documents or instruments evidencing the amounts set forth on any such draft or final certificate, as well as the draft Closing Spreadsheet and the final Closing Spreadsheet delivered pursuant to Section 6.9 hereof.

6.13 Tax Matters.

(a) Purchaser, the Company Securityholders and the Company shall cooperate fully, as and to the extent reasonably requested by the other party, in connection with the filing of Tax Returns and any audit, litigation or other proceeding with respect to Taxes. Such cooperation shall include the retention and (upon the other party's request) the provision of records and information reasonably relevant to any such audit, litigation, or other proceeding and making employees available on a mutually convenient basis to provide additional information and explanation of any material provided hereunder. Purchaser, the Company Securityholders and the Company agree to retain all books and records with respect to Tax matters pertinent to the Company relating to any taxable period beginning before the Closing Date until expiration of the statute of limitations of the respective taxable periods, and to abide by all record retention agreements entered into with any Tax Authority.

(b) Purchaser and the Company shall, and the Company shall cause each Company Securityholder to further agree, upon request, to use their reasonable best efforts to obtain any certificate or other document from any Governmental Entity or any other Person as may be necessary to mitigate, reduce or eliminate any Tax that could be imposed on the Company or any Company Securityholder (including with respect to the transactions contemplated hereby).

6.14 Repayment of Company Debt. Prior to or concurrent with the Closing, the Company and the Israeli Subsidiary shall repay all Company Debt, including those listed on Schedule 2.4(c) of the Company Disclosure Letter, in each case without any further liability to the Purchaser.

6.15 Indemnification of Officers and Directors.

(a) If the Share Purchase is consummated, then until the seventh anniversary of the Closing Date, Purchaser shall, or shall cause the Company to, fulfill and honor in all respects the obligations of the Company and the Israeli Subsidiary to the individuals who are or were directors and/or officers as of or prior to the Closing (the "***Company Indemnified Parties***") pursuant to any indemnification provisions under the Charter Documents as in effect on the Agreement Date and pursuant to any indemnification agreements listed on Schedule 2.12 of the Company Disclosure Letter, with respect to claims arising out of matters occurring at or prior to the Closing (subject to applicable Legal Requirements). The Charter Documents of the Company and the Israeli Subsidiary will contain provisions with respect to the exculpation and indemnification and expense advancement that are substantially the same as were in effect as of immediately prior to the Closing for the Company, which provisions will not be amended in any respect that would adversely affect the rights thereunder of the Company Indemnified Parties until seven (7) years from the Closing Date.

(b) Prior to the Closing, the Company or the Israeli Subsidiary will purchase, for the benefit of the Company Indemnified Parties, policies of directors' and officers' and fiduciary liability "tail" or "run-off" insurance providing for such coverage as the Company may determine in its sole discretion prior to the Closing; *provided*, *however*, that any costs and expenses related thereto shall be considered a Transaction Expense. Purchaser shall, and shall cause the Company to, maintain such policy in full force and effect, and continue to honor the obligations thereunder.

(c) The provisions of clauses (a) and (b) of this Section 6.15 are intended to be for the benefit of, and will be enforceable by, each Company Indemnified Party.

(d) The covenants under this Section 6.15 shall not provide indemnification with respect to a Company Indemnified Party's liability for a claim for indemnification made by an Indemnified Person for breaches of this Agreement by such Indemnified Person pursuant to ARTICLE 9 of this Agreement.

(e) In the event that the Company or any of its respective successors or assigns consolidates with or merges into any other Person and is not be the continuing or surviving corporation or entity of such consolidation or merger or transfers or conveys all or a majority of their properties and assets to any Person, then, and in each such case, Purchaser shall cause proper provisions to be made so that the successors and assigns of the Company shall assume and succeed to the obligations set forth in this Section 6.16. The obligations of Purchaser and the Company under this Section 6.15 shall not be terminated or modified in such a manner as to adversely affect any Company Indemnified Party to whom this Section 6.16applies without the express written consent of such affected Company Indemnified Party.

(f) Notwithstanding anything in this Section 6.15 to the contrary, no Person shall be entitled to indemnification pursuant to this Section 6.15 for any matter involving fraud by such Person in connection with this Agreement or the transactions contemplated thereby.

6.16 Closing Allocation Certificate; Exercise of Options; Optionholder Instrument. The Company shall cause each of the holders of Company Options to execute (i) a Closing Allocation Certificate, in substantially the form attached hereto as Exhibit H (ii) a joinder to this Agreement, in substantially the form attached hereto as Exhibit I, in the event such holder exercises any portion of his Company Options prior to the Closing, and (iii) an Optionholder Instrument, in substantially the form attached hereto as Exhibit J (the "***Optionholder Instrument***"), in the event such Optionholder shall not exercise all of his Company Options prior to the Closing.

6.17 Domiciliation Ruling. The Company has filed the Domiciliation Application with the ITA on August 14, 2012, a true and correct copy thereof is attached as Schedule 6.17 hereto. The parties will cause their respective Israeli counsel and their respective advisors and accountants to cooperate and provide all information required and which is in their possession with respect to the Company's preparation of any written or oral submissions that may be necessary, proper or advisable to obtain the Domiciliation Ruling. The Company (prior to the Closing) and the Shareholders' Agent (following the Closing), its representatives and advisors shall not make any application to, or conduct any negotiation with, the ITA with respect to any matter relating to the subject matter of the Domiciliation Ruling without prior coordination with Purchaser or its representatives and advisors, and will enable Purchaser's representatives and advisors to participate in all discussions and meetings relating thereto. To the extent that Purchaser's representative and advisors elect not to participate in any meeting or discussion, the representatives and advisors of the Company or the Shareholders' Agent, as the case may be, shall update Purchaser regarding the discussions held. In any event, the final text of the Domiciliation Tax Ruling shall be subject to the prior written consent of Purchaser, which consent shall not be unreasonably withheld or delayed, it being understood that Purchaser will give such consent if the Domiciliation Ruling does not affect post-Closing tax periods Notwithstanding the foregoing, in the event that the Shareholders' Agent requests the payment of the Special Cash Dividend prior to the receipt of the Domiciliation Ruling pursuant to Section 6.18(b), Purchaser shall be entitled to continue to pursue the Domiciliation Ruling in its sole discretion, provided that the Domiciliation Ruling would not increase the Liability of the Company or the Israeli Subsidiary for a pre-Closing tax period, without the prior written consent of the Shareholders' Agent, which consent will not be unreasonably withheld or delayed.

6.18 Special Cash Dividend.

(a) In order to dispose of its surplus cash, prior to the Closing Date the Company and the Israeli Subsidiary shall declare a special cash dividend to their respective shareholders with a record date that is prior to the Closing Date (the "***Record Date***"), in an amount to be equal to the maximum amount of cash reserves of the Company and the Israeli Subsidiary (provided that the Company and the Israeli Subsidiary shall satisfy the Working Capital Target and comply with all applicable Legal Requirements that limit the amount of permitted distributions) (the "***Special Cash Dividend***"). For all purposes of this Agreement, the Company Net Working Capital shall not include the declared amount of the Special Cash Dividend. Prior to the Closing, the Israeli Subsidiary shall deposit the cash proposed to be distributed as the Special Cash Dividend in a dedicated account of the Israeli Subsidiary with an Israeli bank approved by Purchaser over which (i) one individual approved by Purchaser and (ii) the Shareholders' Agent shall have the joint signing authority (the "***Dividend Account***"). Following the Closing, the Shareholders' Agent shall follow the instructions of Purchaser and enable the Israeli Subsidiary to withdraw funds from the Dividend Account, in accordance with Section 6.18(c).

(b) Subject to the provisions of Section 6.18(a), the Israeli Subsidiary may file an application to approve the Special Cash Dividend pursuant to Section 303 of the Companies Law (the "***Capital Reduction Application***"), which shall be in a form reasonably accepted to Purchaser. The parties will cooperate and provide all information reasonably required and which is in their possession with respect to the Israeli Subsidiary's preparation of any written or oral submissions that may be necessary, proper or advisable to obtain the approval of the Capital Reduction Application (including providing reasonable assistance for preparation of an economic opinion related to the Israeli Subsidiary). The Israeli Subsidiary (prior to the Closing) and the Shareholders' Agent (following the Closing), its representatives and advisors shall manage the proceedings related to the Capital Reduction Application with Purchaser or its representatives and advisors, and will enable Purchaser's representatives and advisors to participate in all discussions and meetings relating thereto. To the extent that Purchaser's representative and advisors elect not to participate in any meeting or discussion, the representatives and advisors of the Company or the Shareholders' Agent, as the case may be, shall update Purchaser regarding the discussions held. For the avoidance of doubt, any damages, liabilities and expenses (including reasonable attorneys' fees) incurred by the Israeli Subsidiary (before or after the Closing) in preparation and pursuing the Capital Reduction Application, or arising out of or in connection therewith, shall be deemed Indemnifiable Transaction Expenses.

(c) Following the Closing, Purchaser shall (i) cause the Israeli Subsidiary to hold the cash proposed to distributed as the Special Cash Dividend in the Dividend Account and not to be used for any purpose whatsoever other than as set forth pursuant to this Section 6.18 and (ii) cause the Israeli Subsidiary to pay the Special Cash Dividend to the Company and cause the Company to pay the Special Cash Dividend to the Paying Agent for further disbursement to holders of record of outstanding Company Shares as of the Record Date, subject to the deduction and withholding of Taxes pursuant to Section 1.1(c), within ten (10) Business Days following the receipt by Purchaser of a written instruction from the Shareholders' Agent to pay the Special Cash Dividend, provided that unless the Domiciliation Ruling has been obtained, such request shall not be made before a period of four (4) months shall have lapsed from the Closing. Notwithstanding the foregoing, Purchaser shall be entitled to cause the Company and/or the Israeli Subsidiary to reduce the amount of the Special Cash Dividend by (without duplication) (i) the amount of Tax liabilities recognized pursuant to FASB Interpretation No. 48 as set forth in the Closing Financial Statements, (ii) the amount of deferred Tax liabilities set forth in the Closing Financial Statements, (iii) any actual or contingent costs, liabilities or losses (including non-cash charges) of Purchaser, the Company or the Israeli Subsidiary for periods before the Closing Date with respect to actions or inactions that took place prior to the Closing Date (but including the transfer of the Company Intellectual Property from the Company to the Israeli Subsidiary) as a result of the terms and conditions of the Domiciliation Ruling, or as a result of its not being received prior to the payment of the Special Tax Dividend, in comparison to the effect on Purchaser, the Company or the Israeli Subsidiary had the Domiciliation Application been approved in full by the ITA, and (iv) if the Domiciliation Ruling is not received prior to the earlier of (x) the payment of the Special Cash Dividend or (y) the 12-month anniversary of the Closing Date, or if the Domiciliation Ruling does not include both (A) the recognition of the Company as an Israeli tax resident, effective no later than ninety (90) days following the Closing Date, and (B) the tax-free transfer of the Company Intellectual Property from the Company to the Israeli Subsidiary pursuant to Section 104A of the Israeli Income Tax Ordinance, an amount equal to seven hundred fifty thousand U.S. Dollars ($750,000).

(d) In the event that Purchaser shall make any reduction of the Special Cash Dividend as aforesaid, Purchaser shall deliver to the Shareholders' Agent a notice setting forth the amount of such reduction and an explanation thereof in reasonable detail (the "***Reduction Notice***"). The Shareholders' Agent may object in a written notice signed by the Shareholders' Agent (a "***Disagreement Notice***") to all or a portion of such reduction, provided that such written Disagreement Notice shall have been delivered to Purchaser prior to the expiration of ten (10) Business Days following the delivery of the Reduction Notice (the "***Disagreement Period***"). Failure of the Shareholders' Agent to deliver such Disagreement Notice within such Disagreement Period shall be deemed a consent of the Shareholders' Agent to Purchaser's reduction of the amount of the Special Cash Dividend. The Shareholders' Agent may not deliver a Disagreement Notice after the Disagreement Period. Any reductions specified in the Reduction Notice to which there is no Disagreement Notice delivered by the Shareholders' Agent by the expiration of the Disagreement Period, shall be deemed final and binding.

(e) If the Shareholders' Agent delivers a Disagreement Notice within the Disagreement Period, Purchaser and the Shareholders' Agent shall attempt in good faith for 45 days after Purchaser's receipt of such Disagreement Notice to resolve such objection. If Purchaser and the Shareholders' Agent shall so agree, a memorandum setting forth such agreement shall be prepared and signed by both parties setting forth the agreement. For the avoidance of doubt, the resolution of a contingent liability set forth in the Reduction Notice and related Disagreement Notice (a "***Contingent Liability Claim***") may be deferred by an agreement between Purchaser and the Shareholders' Agent to wait for the contingency to be finally resolved.

(f) After the final resolution of any issue specified in a Disagreement Notice, Purchaser shall transfer to the Paying Agent (for distribution to the holders of record of outstanding Company Shares as of the Record Date) the applicable portion of the Special Cash Dividend, if so required by said memorandum.

(g) Should Purchaser and the Shareholders' Agent be unable to agree as to any particular reduction amount or amounts specified in the Disagreement Notice within the time period specified above, then Purchaser shall be required to submit the matter to arbitration within twenty (20) Business Days, unless the reduction amount that is at issue is a Contingent Liability Claim, in which event arbitration shall not be commenced but may be requested by Purchaser only within twenty (20) Business Days after such amount is finally ascertained or both parties agree in writing to arbitration. The terms and conditions of such arbitration shall be governed by Section 9.5(c).

(h) To the extent the Special Cash Dividend shall have been reduced pursuant to this Section 6.18, the cash in the Dividend Account equal to such reduction shall be unrestricted. In the event that the amount of the final tax liability as determined by the ITA following a tax audit or upon expiration of the applicable statute of limitations, with respect to any matter set forth in Section 6.18(b) (other than clause (iv) thereof), is lower than the amount by which the Special Cash Dividend was reduced in respect of such matter, Purchaser shall cause the Israeli Subsidiary to pay the balance to the Paying Agent for distribution to the Company Shareholders as of the Record Date, subject to applicable withholding Taxes.

ARTICLE 7
Conditions to the Share Purchase

7.1 Conditions to Obligations of Each Party to Effect the Share Purchase. The respective obligations of each party hereto to consummate the transactions contemplated hereby shall be subject to the satisfaction at or prior to the Closing of each of the following conditions:

(a) Illegality. No temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or other legal or regulatory restraint or prohibition preventing the consummation of the Share Purchase shall be in effect, nor shall any action have been taken by any Governmental Entity seeking any of the foregoing, and no statute, rule, regulation or order shall have been enacted, entered, enforced or deemed applicable to the Share Purchase, which makes the consummation of the Share Purchase illegal.

(b) Governmental Approvals. Purchaser and the Company shall have timely obtained from each Governmental Entity all approvals, waivers and consents, if any, necessary for consummation of the Share Purchase and the other transactions contemplated hereby, as set forth on Schedule 7.1(b) to this Agreement.

7.2 Additional Conditions to Obligations of the Company. The obligations of the Company to consummate the transactions contemplated hereby shall be subject to the satisfaction at or prior to the Closing of each of the following conditions (it being understood that each such condition is solely for the benefit of the Company and may be waived by the Company in writing in its sole discretion without notice or Liability to any Person):

(a) Representations, Warranties and Covenants. The representations and warranties of Purchaser in this Agreement shall be true and correct in all material respects (except for such representations and warranties that are qualified by their terms by a reference to materiality or Material Adverse Effect, which representations and warranties as so qualified shall be true and correct in all respects) on and as of the Agreement Date and on and as of the Closing Date as though such representations and warranties were made on and as of such date (except for representations and warranties which address matters only as to a specified date, which representations and warranties shall be true and correct with respect to such specified date). Purchaser shall have performed and complied in all material respects with all covenants, obligations and conditions of this Agreement required to be performed and complied with by it at or prior to the Closing.

(b) Receipt of Closing Deliveries. The Company shall have received each of the agreements, instruments and other documents set forth in Section 1.2(a).

(c) Receipt of Closing Payment. The Paying Agent shall have received the Closing Payment from Purchaser and shall have provided the parties written evidence thereof.

7.3 Additional Conditions to the Obligations of Purchaser. The obligations of Purchaser to consummate the transactions contemplated hereby shall be subject to the satisfaction at or prior to the Closing of each of the following conditions (it being understood that each such condition is solely for the benefit of Purchaser and may be waived by Purchaser in writing in their sole discretion without notice or Liability to any Person):

(a) Representations, Warranties and Covenants. The representations and warranties of the Company and the Company Shareholders in this Agreement shall be true and correct in all material respects (except for such representations and warranties that are qualified by their terms by a reference to materiality or Material Adverse Effect, which representations and warranties shall be true and correct in all respects) on and as of the Agreement Date and on and as of the Closing Date as though such representations and warranties were made on and as of such date (except for representations and warranties which address matters only as to a specified date, which representations and warranties shall be true and correct with respect to such specified date). Notwithstanding the foregoing, with respect to the representations and warranties of the Company in Section 2.4 of this Agreement being true and correct in all material respects (except for such representations and warranties that are qualified by their terms by a reference to materiality or Material Adverse Effect, which representations and warranties shall be true and correct in all respects) on and as of the Closing Date as though such representations and warranties were made on and as of such date, "Company Financial Statements" shall be replaced with "Closing Financial Statements". The Company, the Israeli Subsidiary and each of the Company Shareholders shall have performed and complied in all material respects with all covenants, obligations and conditions of this Agreement required to be performed and complied with by the Company, the Israeli Subsidiary or such Company Shareholder, as applicable, at or prior to the Closing.

(b) Receipt of Closing Deliveries. Purchaser shall have received each of the agreements, instruments and other documents set forth in Section 1.2(b); *provided*, *however*, that such receipt shall not be deemed to be an agreement by Purchaser that the amounts set forth on the Company Net Working Capital Certificate, Transaction Expenses Certificate or the Closing Spreadsheet or any of the other agreements, instruments or documents set forth in Section 1.2(b) is accurate and shall not diminish Purchaser's remedies hereunder if any of the foregoing documents is not accurate.

(c) Injunctions, Restraints or Litigation. No temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or other legal or regulatory restraint provision limiting or restricting Purchaser's ownership of Company Shares or the conduct or operation of the business of the Company or the Israeli Subsidiary following the Closing shall be in effect nor shall there be pending any litigation by any Person seeking any of the foregoing or seeking the recovery of a material amount of damages in connection with the Share Purchase.

(d) No Material Adverse Effect. There shall not have been any Material Adverse Effect on the Company or the Israeli Subsidiary.

(e) No Outstanding Securities. Other than the securities to be purchased by Purchaser pursuant to this Agreement as set forth on the Closing Spreadsheet, there shall be no outstanding securities, warrants, options, commitments or Contracts of the Company or the Israeli Subsidiary immediately prior to the Closing that purport to obligate the Company or the Israeli Subsidiary to issue any shares of Company Share Capital or options or rights to acquire any Company Share Capital, Israeli Subsidiary Share Capital, Company Options, or any other securities under any circumstances.

(f) Employees.

(i) At least the number of employees as set forth on Schedule 7.3(f)(i) shall have signed and delivered to Purchaser the executed retention plan agreement between such employee and the Israeli Subsidiary, in form and substance reasonably acceptable to Purchaser, each of which, as well as each of the Key Employee Agreements shall continue to be in full force and effect and no action shall have been taken by any individual party to any of such agreements to rescind any of such agreements;

(ii) at least the number of employees per department as set forth in the last column on Schedule 7.3(f)(ii) hereto shall be employees of the Israeli Subsidiary ("***Continuing Employees***"), and none of such employees shall have given any notice or other indication that he or she is not willing to remain employed by the Israeli Subsidiary following the Closing. This condition shall not derogate from the right of Purchaser to terminate the employment of any employees, in its sole discretion, following the Closing.

(g) Payment of Debt. The Company shall have delivered to Purchaser documentation reasonably satisfactory to Purchaser evidencing the Company's and the Israeli Subsidiary's repayment in full of all Company Debt pursuant to Section 6.14, as well as the repayment of all Indebtedness of any current or former shareholder, director, officer, employee, consultant or related party of the Company or the Israeli Subsidiary (or any affiliate of the foregoing) owing to the Company or the Israeli Subsidiary, as applicable, including any intercompany debt between the Company and the Israeli Subsidiary, any all Taxes and interest related to all of the foregoing Indebtedness.

(h) Consents. All Consents required to be obtained by the Company or the Israeli Subsidiary in connection with the transactions contemplated by this Agreement, as set forth on Schedule 7.3(h) hereof, shall have been obtained in a form satisfactory to Purchaser, been delivered to Purchaser, and shall be in full force and effect.

(i) No Liens. Other than as set forth on Schedule 7.3(i) hereof, all Encumbrances on any assets of the Company or the Israeli Subsidiary shall have been terminated effective immediately prior to the Closing, other than liens for Taxes not yet due and payable.

(j) Closing Financial Statements. The Company shall have delivered to Purchaser (i) the audited consolidated financial statements, in U.S. Dollars and in accordance with GAAP, of the Company, including the statement of income, statement of cash flows and statement of shareholder's equity of the Company for the years ended December 31, 2010 and 2011 and the audited balance sheet of the Company as of December 31, 2009, 2010 and 2011, together with the audit opinion thereon of the Auditors, (ii) ten days prior to Closing, the unaudited consolidated financial statements, as examined by the Auditors for integrity, in U.S. Dollars and in accordance with GAAP, of the Company, including the statement of operations, statement of shareholders' equity and statement of cash flows of the Company the three-month and nine-month periods ended September 30, 2011 and September 30, 2012, and a balance sheet as of the end of such periods, and (iii) internally prepared statements of income as prepared by the Company's certified accounting firm, balance sheet and income statement of the Company for every complete month following September 30, 2012 up and until the Closing Date,(collectively, the "***Closing Financial Statements***") in each case, certified by the Authorized Persons that such financial statements: (1) present fairly in all material respects the financial position of the Company and the Israeli Subsidiary as of the respective dates thereof and the results of operations, changes in shareholders' equity and cash flows of the Company and the Israeli Subsidiary for the periods covered thereby, (2) have been prepared in accordance with GAAP consistently applied throughout the periods covered and (3) other than with respect to Section 7.3(j)(iii), comply with the requirements of all applicable law and regulations, including SEC Regulation S-X, subject to year-end audit adjustments being prepared in accordance with GAAP consistently applied.

(k) Working Capital Target. The Company Net Working Capital reflected in the Company Net Working Capital Certificate shall be equal to or greater than the Working Capital Target.

(l) Accounts Receivable. The Company shall have delivered a certificate signed by the Authorized Person setting forth the amounts and an accurate aging of the Company's and the Israeli Subsidiary's accounts receivable in the aggregate and by customer, and indicating the amounts of allowances for doubtful accounts, in each case as of September 30, 2012 and each month-end thereafter prior to the Closing Date and certifying that the representations and warranties set forth in Section 2.4(e) are true and correct in all material respects with respect to such data (substituting "Closing Date" for "Agreement Date").

ARTICLE 8
Termination, Amendment and Waiver

8 . 1 Termination. At any time prior to the Closing, this Agreement may be terminated and the Share Purchase abandoned by authorized ken by the terminating party:

(a) by mutual written consent duly authorized by Purchaser and the Company;

(b) by either Purchaser or the Company, if the Closing shall not have occurred within 60 days following the Agreement Date or such other date that Purchaser and the Company may agree upon in writing (the "***Agreement Termination Date***"); *provided, however*, that if the required consent listed in Schedule 7.3(h) shall not be obtained within such 60 days period, the Agreement Termination Date shall be extended by 30 days; and *provided*, *further*, that the right to terminate this Agreement under this clause (b) of Section 8.1 shall not be available to any party whose breach of any covenant or agreement hereunder will have been the principal cause of, or will have directly resulted in, the failure of the Closing to occur on or before the Agreement Termination Date;

(c) by either Purchaser or the Company, if any permanent injunction or other order of a Governmental Entity of competent authority preventing the consummation of the Share Purchase shall have become final and nonappealable;

(d) by Purchaser, if it is not in material breach of its obligations under this Agreement, if (i) the Company or the Company Shareholders shall have breached any representation, warranty, covenant or agreement contained herein and such breach shall not have been cured within 20 Business Days after receipt by the Company of written notice of such breach and if not cured within the timeframe above and at or prior to the Closing, such breach would result in the failure of any of the conditions set forth in Section 7.1 or Section 7.3 to be satisfied, (ii) there shall have been a Material Adverse Effect with respect to the Company or the Israeli Subsidiary, or (iii) the Company or the Israeli Subsidiary shall have breached Section 6.3 (No Solicitation) or Section 6.4 (Confidentiality; Public Disclosure)(provided that the termination right under clause (iii) may be exercised only within ten (10) days of Purchaser first becoming aware of the breach of such provisions and as long as the closing conditions set forth in Section 7.1 and Section 7.3 have not been satisfied); or

(e) by the Company, if it is not in material breach of its obligations under this Agreement, if Purchaser shall have breached any representation, warranty, covenant or agreement contained herein and such breach shall not have been cured within 20 Business Days after receipt by Purchaser of written notice of such breach and if not cured within the timeframe above and at or prior to the Closing, such breach would result in the failure of any of the conditions set forth in Section 7.1 or Section 7.2 to be satisfied.

8.2 Effect of Termination. In the event of termination of this Agreement as provided in Section 8.1, this Agreement shall forthwith become void and there shall be no liability or obligation on the part of Purchaser, the Company, the Company Shareholders or their respective officers, directors, shareholders or affiliates; *provided*, *however*, that (a) the provisions of Section 6.4 (Confidentiality; Public Disclosure), Section 6.10 (Expenses), Section 8.2 (Effect of Termination), ARTICLE 10 (General Provisions) and the Confidentiality Agreement shall remain in full force and effect and survive any termination of this Agreement and (b) nothing herein shall relieve any party hereto from liability in connection with any breach of such party's representations, warranties or covenants contained herein.

8.3 Amendment. This Agreement may not be amended, modified, altered or supplemented other than by means of a written instrument duly executed and delivered on behalf of Purchaser and the Shareholders' Agent (acting exclusively for and on behalf of all of the Securityholders).

8.4 Extension; Waiver. The Shareholders' Agent and Purchaser may, to the extent legally allowed, (i) extend the time for the performance of any of the obligations or other acts of the other, (ii) waive any inaccuracies in the representations and warranties made to such party contained herein or in any document delivered pursuant hereto, and (iii) waive compliance with any of the covenants, agreements or conditions for the benefit of such Person contained herein. Any agreement on the part of a party hereto or the Shareholders' Agent to any such extension or waiver shall be valid only if set forth in an instrument in writing signed on behalf of such party. Without limiting the generality or effect of the preceding sentence, no delay in exercising any right under this Agreement shall constitute a waiver of such right, and no waiver of any breach or default shall be deemed a waiver of any other breach or default of the same or any other provision in this Agreement.

ARTICLE 9
Indemnification AND SET-OFF

9.1 Indemnification.

(a) Subject to the limitations set forth in this ARTICLE 9, from and after the Closing, the Company Shareholders and Company Optionholders (the "***Indemnifying Parties***"), shall severally and not jointly, in proportion to each such Indemnifying Party's Pro Rata Share, indemnify and hold harmless Purchaser, the Company and the Israeli Subsidiary and their respective Representatives, successors and permitted assigns, and each Person, if any, who controls or may control Purchaser within the meaning of the Securities Act (each of the foregoing being referred to individually as an "***Indemnified Person***" and collectively as "***Indemnified Persons***") from and against, any and all direct claims, losses, Liabilities, damages, actions, fees, lost profit, Tax, deficiencies, assessments, judgments, awards, claim of any kind, interest, penalties, reductions in value, costs and expenses, including, without limitation, reasonable costs of investigation and defense and reasonable fees and expenses of lawyers, experts and other professionals, whether or not due to a third party claim (collectively, "***Indemnifiable Damages***"), arising out of, resulting from or in connection with (i) any failure of any representation or warranty made by the Company, subject to the IP Infringement Qualifier, or any of the Company Shareholders in this Agreement or the Company Disclosure Letter (including any exhibit or schedule to the Company Disclosure Letter), or made by any Company Optionholder by way of an Optionholder Instrument, to be true and correct as of the Agreement Date and as of the Closing Date as though such representation or warranty were made as of the Closing Date (except in the case of representations and warranties which by their terms speak only as of a specific date or dates, which representations and warranties shall be true and correct as of such date), (ii) any failure of any certification, representation or warranty made by the Company in any certificate delivered to Purchaser pursuant to Section 1.2(b) of this Agreement (other than the Closing Spreadsheet, the Company Net Working Capital Certificate, the Company Cash Statement or the Transaction Expenses Certificate) to be true and correct as of the date such certificate is delivered to Purchaser, (iii) any inaccuracies in the Closing Spreadsheet, the Company Net Working Capital Certificate, the Company Cash Statement or the Transaction Expenses Certificate (without duplication to the working capital adjustment pursuant to Section 1.5), (iv) any breach of any of the covenants or agreements made by the Company, the Israeli Subsidiary or the Company Shareholders in this Agreement or any other agreements contemplated by this Agreement or the Share Purchase, (v) any Indemnifiable Transaction Expenses, (vi) the Specified Litigation Matters (as defined in Schedule 1.6), (vii) any Taxes for which the Company or the Israeli Subsidiary is or becomes liable for any Tax period ending on or before the Closing Date and which are not reflected in the Company Financial Statements (without duplication with Section 6.18), (viii) any amounts that are paid to any Person pursuant to any indemnification provisions under the Charter Documents as in effect on the Agreement Date and pursuant to any indemnification agreements listed on Schedule 2.12 of the Company Disclosure Letter (the "***Indemnification Agreements***"), with respect to claims arising out of matters occurring at or prior to the Closing, (ix) any fraud of a Company Shareholder or the Company or the Israeli Subsidiary or either of such entity's officers, directors or employees that would qualify as a breach of a representation or warranty under subsection (i) above, (x) to the extent not covered by any of the foregoing clauses, any claim by a Person alleging to be a holder of securities of the Company or the Israeli Subsidiary, and (xi) to the extent not covered by any of the foregoing clauses, any Legal Proceeding commenced by any Indemnified Person for the purpose of enforcing its rights under this ARTICLE 9. For purposes of this ARTICLE 9, materiality standards or qualifications, and qualifications by reference to the defined term "Material Adverse Effect" in any representation, warranty or covenant shall not be taken into account in determining whether a breach of or default in connection with such representation, warranty or covenant (or failure of any representation or warranty to be true and correct) exists, or in determining the amount of any Indemnifiable Damages with respect to such breach, default or failure to be true and correct. No Indemnifying Parties shall have any right of contribution, indemnification or right of advancement from the Company or Purchaser with respect to any Indemnifiable Damages claimed by an Indemnified Person for breaches of this Agreement by such Indemnifying Party, notwithstanding anything to the contrary in the Indemnification Agreements.

(b) Notwithstanding the aforesaid, in the event of a breach by any Company Shareholder of any of his, her or its respective representations and warranties (the "***Breaching Shareholder***"), Purchaser or any Indemnified Person shall only be entitled to present a demand, bring a claim, or be entitled to any remedy against the Breaching Shareholder (or from the portion of the Set-off Amount attributable to the Breaching Shareholder, as the case may be), and none of the other Indemnifying Parties will be liable for such a breach (and each Breaching Shareholder will indemnify and reimburse the Indemnifying Parties and any of their respective directors, officers, controlling persons, for Indemnifiable Damage incurred by such Indemnifying Party or any such director, officer, or controlling person in connection with any loss, claim, damage, liability or action, as incurred by them as a result of such a breach).

(c) From and after the Closing Date and until the first anniversary of the Closing Date, Purchaser shall hold harmless and indemnify the Securityholders from and against, and shall compensate and reimburse the Securityholders for, any Indemnifiable Damages arising out of, resulting from or in connection with (i) any failure of any representation or warranty made by Purchaser in this Agreement to be true and correct as of the Agreement Date and as of the Closing Date as though such representation or warranty were made as of the Closing Date (except in the case of representations and warranties which by their terms speak only as of a specific date or dates, which representations and warranties shall be true and correct as of such date), (ii) any breach of any of the covenants or agreements made by Purchaser in this Agreement or any other agreements contemplated by this Agreement or the Share Purchase. A claim under this Section 9.1(c) may only be brought by the Shareholders' Agent. Notwithstanding the foregoing, no indemnification payment shall be required to be made by Purchaser to any Securityholder pursuant to Section 9.1(c)(i) above unless and until the aggregate amount of Indemnifiable Damages sustained by all Securityholders exceeds the Basket Amount. If the total amount of such Indemnifiable Damages exceeds the Basket Amount then the Securityholders shall be entitled to be indemnified against and compensated and reimbursed the entire amount of such Indemnifiable Damages including the Basket Amount. Except in the case of fraud by Purchaser and any failure of any of the representations and warranties contained in Section 4.2 (Authority; Noncontravention), Section 4.3(b) (Valid Issuance) and Section 4.4 (Capital Resources) (the "**Special Purchaser Representations**") to be true and correct as aforesaid, the maximum aggregate liability of Purchaser under this Section 9.1(c) shall not exceed three million five hundred thousand U.S. Dollars ($3,500,000). In the case of any failure of any of the Special Purchaser Representations to be true and correct as aforesaid, the maximum aggregate liability of Purchaser under this Section 9.1(c) shall not exceed the difference between the total amount of the Aggregate Consideration that Purchaser is then currently obligated to pay pursuant to this Agreement *less* any amount of the Aggregate Consideration already paid by Purchaser. If the Share Purchase is consummated, recovery by way of the indemnification right pursuant to this Section 9.1(c) shall constitute the sole and exclusive monetary remedy of the Securityholders for the matters set forth in this Section 9.1(c), except in the event of fraud by Purchaser.

9.2 Indemnifiable Damage Threshold; Other Limitations.

(a) Purchaser (on its behalf or on behalf of other Indemnified Persons) shall be entitled to set off up to three million five hundred thousand U.S. Dollars ($3,500,000) (the "***Maximum Set-off Amount***") due to the Indemnified Persons pursuant to and in accordance with this ARTICLE 9 against a portion of the Deferred Payment and, subject to Sections 9.3, 9.4(b) and 10.1, the Contingent Payment, if any, payable by Purchaser to the Company Securityholders pursuant to this Agreement against Indemnifiable Damages (the "***Set-off Right***"). The amount set off by Purchaser pursuant to the Set-off Right shall be referred to as the "***Set-off Amount***".

(b) If the Share Purchase is consummated, recovery by way of the Set-off Right shall constitute the sole and exclusive monetary remedy of the Indemnified Persons for the indemnity obligations under this Agreement for the matters listed in Section 9.1(a)(i) and (ii) (the "***General Indemnification Cap***"), except (i) any failure of any of the representations and warranties contained in Section 2.1 (Organization, Standing, Power and Subsidiaries), Section 2.2 (Capital Structure), Section 2.3 (Authority; Noncontravention), Section 2.9 (Intellectual Property), subject to the IP Infringement Qualifier, Section 2.10 (Taxes), Section 3.1 (Power and Capacity), Section 3.2 (Enforceability; Noncontravention), Section 3.3 (Title to Shares and Section 3.5 (Securities Laws) (to the extent such failure would negatively impact an exemption from registration of the issuance of Purchaser Ordinary Shares pursuant to applicable securities laws) (collectively, the "***Special Representations***") to be true and correct as aforesaid and (ii) the matters listed in clauses (iii) – (xi) of Section 9.1(a) (clauses (i) and (ii) collectively, the "***Fundamental Claims***"), for which the Indemnified Persons shall first have the right to obtain indemnification by way of the Set-off Right, and second, bring a claim against the Indemnifying Parties, all in accordance with this ARTICLE 9.

(c) In the case of any Fundamental Claim and subject to Section 9.1(b), after Purchaser (on behalf of itself or other Indemnified Persons) shall have set off the Maximum Set-off Amount by way of the Set-off Right (after taking into account all other claims made by way of the Set-off Right) (in the case of a Fundamental Claim during the Set-off Period), each Indemnifying Party shall be liable for such Person's Pro Rata Share of the amount of any Indemnifiable Damages resulting therefrom; provided, however, that such liability shall be limited to: (i) in case of breach of the representations and warranties contained in Section 2.9, 60% of such Person's Pro Rata Share of the Aggregate Consideration actually received by such Indemnifying Party, and (ii) in case of other Fundamental Claims, such Person's Pro Rata Share of the Aggregate Consideration actually received by such Indemnifying Party, except that in the case of a breach of any of the representations and warranties contained in Section 3.3 (Title to Shares), such Person's Pro Rata Share of the Aggregate Consideration plus the reasonable fees and expenses and other costs incurred by Purchaser to cure such breach.

(d) Notwithstanding anything contained herein to the contrary and subject to limitations set forth in clauses (b) and (c) above, in no event shall the maximum aggregate liability of all the Indemnifying Parties together under this Agreement exceed the Aggregate Consideration actually paid to the Indemnifying Parties (other than, with respect to such Indemnifying Party, for any fraud committed by such Indemnifying Party or as a result of the final clause of Section 9.2(c)).

(e) Notwithstanding anything contained herein to the contrary, for purposes of computing the amount of any Indemnifiable Damages incurred, there shall be deducted an amount equal to the amount of:

(i) any insurance proceeds actually received from any third-party insurer in connection with such Indemnifiable Damages prior to the end of the applicable Set-off Period;

(ii) indemnity or contribution amounts actually received from third parties (net of applicable costs of recovery or collection thereof) prior to the end of the applicable Set-off Period; and

(iii) any Tax benefit actually realized as a result of the Indemnifiable Damages, i.e., the amount of Tax then required to be paid has been reduced below the amount of Tax that otherwise would have been payable but for the deductibility of, or other Tax benefit arising from, such Indemnifiable Damages.

(f) Other than in the case of the Specified Litigation Matters, the Indemnifying Parties shall not be obligated or required to make any indemnification payment nor would they be subject to any liability pursuant to clause (i) of Section 9.1(a) until such time as the total amount of all Indemnifiable Damages that have been suffered or incurred by any Indemnified Persons exceeds an amount equal to $200,000 (the *"**Basket Amount**"*). If the total amount of such Indemnifiable Damages exceeds the Basket Amount, then the Indemnified Persons shall be entitled to be indemnified against and compensated and reimbursed for the entire amount of such Indemnifiable Damages, including the Basket Amount.

(g) Notwithstanding anything herein to the contrary, nothing in this Agreement shall limit Purchaser's right to specific performance or injunctive relief, or any right or remedy arising by reason of any claim of fraud or intentional misrepresentation with the respect to this Agreement or any of the other ancillary agreements.

9.3 Period for Claims by way of Set-off Right. Subject to the other provisions of this ARTICLE 9, the Set-off Right shall be used to indemnify Purchaser (on behalf of itself or any other Indemnified Person) for Indemnifiable Damages pursuant to the indemnification obligations of the Indemnifying Parties. In the event that an Applicable Change did not take place within the 12-month period after the Closing, the period during which claims for Indemnifiable Damages may be made and consideration set off for Indemnifiable Damages by way of the Set-off Right (the "***Set-off Period***") shall commence on the Closing Date and terminate on the 12–month anniversary of the Closing Date (the "***Initial Set-off Period***"). In the event that an Applicable Change Announcement (as defined in Schedule 1.6), if such announcement ultimately results in an Applicable Change (as such terms are defined in Section 1.6(c)), shall occur during the Initial Set-off Period, then the Set-off Period shall be extended until the 18–month anniversary of the Closing Date. For the avoidance of doubt, the Indemnified Persons may make a claim for Indemnifiable Damages in respect of any Fundamental Claim even after the applicable Set-off Period, but in such event, any amounts to be paid by the Indemnifying Parties will be paid directly by the Indemnifying Parties and not from the Set-off Amount, subject to the provisions of Section 9.2 and Section 10.1. Notwithstanding anything contained herein to the contrary, such portion of the Set-off Amount as in the reasonable judgment of Purchaser may be necessary to satisfy any unresolved or unsatisfied claims for Indemnifiable Damages specified in any Claim Certificate delivered to the Shareholders' Agent prior to the expiration of the applicable Set-off Period shall be held by Purchaser until such claims for Indemnifiable Damages have been resolved or satisfied.

9.4 Claims.

(a) On or before the last day of the applicable Set-off Period, Purchaser may in good faith deliver to the Shareholders' Agent a certificate signed by any officer of Purchaser (a "***Claim Certificate***"):

(i) stating that an Indemnified Person has incurred, paid, reserved or accrued (in accordance with GAAP), or in good faith believes that it is likely to incur, pay, reserve or accrue (in accordance with GAAP), Indemnifiable Damages (or that with respect to any Tax matters, that any Tax Authority may raise such matter in audit of Purchaser or its Subsidiaries, which could give rise to Indemnifiable Damages);

(ii) stating the amount of such Indemnifiable Damages (which, in the case of Indemnifiable Damages not yet incurred, paid, reserved or accrued, is likely to be the maximum amount believed by Purchaser (acting in good faith) to be incurred, paid, reserved or accrued (in accordance with GAAP); and

(iii) specifying in reasonable detail (based upon the information then possessed by Purchaser) the individual items of such Indemnifiable Damages included in the amount so stated and the nature of the claim to which such Indemnifiable Damages are related.

(b) If Purchaser shall have delivered a Claim Certificate to the Shareholders' Agent, Purchaser may set off from the Deferred Payment, or in the event that an Applicable Change shall have occurred during the Initial Set-off Period, from the Contingent Payment, if any, an amount of cash equal to the amount of any Indemnifiable Damages corresponding to such claim or claims as set forth in such Claim Certificate, *provided*, *however*, that Purchaser may not hold back more than the Maximum Set-off Amount from the Deferred Payment or more than two million five hundred thousand U.S. Dollars ($2,500,000) from the Contingent Payment, if any, *provided*, *further*, that in any case Purchaser may not set off pursuant to the Set-off Right an aggregate amount in excess of the Maximum Set-off Amount.

(c) The Shareholders' Agent may object in a written statement signed by the Shareholders' Agent (an " ***Objection Certificate***") to any claim or claims made in a Claim Certificate, provided that such written Objection Certificate shall have been delivered to Purchaser prior to the expiration of 20 Business Days following the delivery of such Claim Certificate (the "***Objection Period***"). Failure of the Shareholders' Agent to deliver such Objection Certificate within such Objection Period shall be deemed consent of Shareholders' Agent to Purchaser's set off of the Set-off Amount. Shareholders' Agent may not deliver an Objection Certificate after the Objection Period. Claims specified in any Claim Certificate to which there is no Objection Certificate delivered by the Shareholders' Agent by the expiration of the Objection Period, shall be deemed final and binding.

(d) In the case of any claim in excess of the Maximum Set-off Amount or made after the Set-off Period, if Purchaser believes it is entitled to indemnification pursuant to this ARTICLE 9, Purchaser may make an indemnification claim by delivering a Claim Certificate to the Shareholders' Agent, which Claim Certificate shall include the information set forth in subsections 9.4(a)(i)-(iii). The Shareholders' Agent may object in an Objection Certificate to any claim or claims made in a Claim Certificate, provided that such written Objection Certificate shall have been delivered to Purchaser prior to the expiration of the Objection Period. Failure of the Shareholders' Agent to deliver such Objection Certificate within such Objection Period shall be deemed consent of Shareholders' Agent to Purchaser's claim. Shareholders' Agent may not deliver an Objection Certificate after the Objection Period. Claims specified in any Claim Certificate to which there is no Objection Certificate delivered by the Shareholders' Agent by the expiration of the Objection Period, shall be deemed final and binding. If the Shareholders' Agent delivers such Objection Certificate within the Objection Period, Purchaser and the Shareholders' Agent shall attempt in good faith for 45 days after Purchaser's receipt of such Objection Certificate to resolve such objection. If they shall succeed in reaching agreement on their respective rights with respect to any of such claims, Purchaser and the Shareholders' Agent shall promptly prepare and sign a memorandum setting forth such agreement. If Purchaser and the Shareholders' Agent reach an agreement with respect to any claim brought by Purchaser, the Shareholders' Agent shall instruct each Indemnifying Party to pay Purchaser such Person's Pro Rata Share of the amount of Indemnifiable Damages agreed upon or, if the claim is covered by Section 9.1(b), the Shareholders' Agent shall instruct the Breaching Shareholder to pay the amount of Indemnifiable Damages agreed upon. Should they be unable to agree as to any particular item or items or amount or amounts within such time period, then such dispute shall be resolved in accordance with Section 9.5 below.

9.5 Resolution of Objections to Claims.

(a) If the Shareholders' Agent delivers such Objection Certificate within the Objection Period, Purchaser and the Shareholders' Agent shall attempt in good faith for 45 days after Purchaser's receipt of such Objection Certificate to resolve such objection. If Purchaser and the Shareholders' Agent shall so agree, a memorandum setting forth such agreement shall be prepared and signed by both parties setting forth the approved portion of the Set-off Amount, if any, with respect to the claim and objection so resolved. For the avoidance of doubt, the resolution of a contingent liability set forth in a Claim Certificate and related Objection Certificate (a "***Contingent Claim***") may be deferred by an agreement between Purchaser and the Shareholders' Agent to wait for the contingency to be finally resolved.

(b) After the final resolution of any item specified in an Objection Certificate, Purchaser shall pay to the Paying Agent (for distribution to the Company Securityholders pursuant to their respective Pro Rata Shares) the excess of the Set-off Amount over the approved portion of the Set-off Amount, if any (the "***Set-off Excess***") *less* that portion of the Set-off Excess that is determined, in the reasonable judgment of Purchaser, to be necessary to satisfy all unsatisfied or disputed claims for indemnification specified in any Claim Certificate delivered to Shareholders' Agent prior to the end of the applicable Set-off Period, if any. Any Set-off Excess after the resolution of all such objections following the applicable Set-off Period shall be paid to the Paying Agent and distributed to the Company Securityholders in accordance with their respective Pro Rata Shares.

(c) Should Purchaser and the Shareholders' Agent be unable to agree as to any particular item or items or amount or amounts specified in an Objection Certificate within the time period specified in Section 9.5(a), then Purchaser shall be required to submit the matter to arbitration in accordance with this subsection (c), within 20 Business Days (the amount of indemnification sought in such arbitration, the "***Disputed Amount***"), unless the amount of the Indemnifiable Damages that is at issue is a Contingent Claim, in which event arbitration shall not be commenced but may be requested by Purchaser only within 20 Business Days after such amount is finally ascertained or both parties agree in writing to arbitration. In the event the matter is submitted to arbitration, it shall be settled by arbitration conducted in English by one arbitrator mutually agreeable to Purchaser and the Shareholders' Agent. In the event that, within 10 calendar days after submission of any dispute to arbitration as set forth above, Purchaser and the Shareholders' Agent cannot mutually agree on one arbitrator, then, within 15 calendar days after the end of such 10-calendar day period, Purchaser and the Shareholders' Agent shall each select one nominee. The two nominees so selected shall select the arbitrator, who shall have relevant experience, to conduct the arbitration. Any such arbitration shall be held in Tel Aviv, Israel, under the Israel Arbitration Law, 5728-1968 (as amended, the "***Arbitration Law***"). The arbitrator shall not be bound by procedural law or rules of evidence, but will rule consistent with the substantive law of the State of Israel. The arbitrator shall determine how all expenses relating to the arbitration shall be paid, including the respective expenses of each party, the fees of the arbitrator and the administrative fees. The parties agree to use all reasonable efforts to cause the arbitrator to set a limited time period and establish procedures designed to reduce the cost and time for discovery while allowing the parties an opportunity, adequate in the sole judgment of the arbitrator, to discover relevant information from the opposing parties about the subject matter of the dispute. The arbitrator shall rule upon motions to compel or limit discovery and shall have the authority to impose sanctions, including attorneys' fees and costs, to the same extent as a competent court of law or equity, should the arbitrator determine that discovery was sought without substantial justification or that discovery was refused or objected to without substantial justification. The decision of the arbitrator as to any particular item or items or amount or amounts specified in a Claim Certificate shall be final, binding, and conclusive upon the Indemnifying Parties (as a single group, if applicable) and the Indemnified Person (the amounts so determined, the "***Awarded Indemnifiable Damages***"). Such decision with respect to the Awarded Indemnifiable Damages shall be written and shall be supported by written findings of fact and conclusions of law which shall set forth the award, judgment, decree or order awarded by the arbitrator(s). Any ruling or decision of the arbitrator may be enforced in any court of competent jurisdiction. Either party shall be entitled to appeal to the District Court of Tel Aviv any manifest error by the arbitrator in the application of applicable law in accordance with Section 29B of the Arbitration Law. This section constitutes an Arbitration Agreement in accordance with the Arbitration Law. In the event of any contradiction between the provisions hereof and the Arbitration Law, the provisions of this Agreement shall prevail.

9.6 Shareholders' Agent.

(a) At the Closing, Nadav Goshen shall be constituted and appointed as the Shareholders' Agent and Nadav Goshen shall be the appointed representative on behalf of the Company Shareholders. Should the Company Shareholders, by a majority vote (based on their respective holdings of Company Shares immediately prior to the Closing), decide to replace Nadav Goshen as their appointed representative, it shall so notify the parties hereto in accordance with the provisions of Section 10.2 hereof. For purposes of this Agreement, the term "***Shareholders' Agent***" shall mean the agent for and on behalf of the Indemnifying Parties to: (i) execute, as Shareholders' Agent, this Agreement and any agreement or instrument entered into or delivered in connection with the transactions contemplated hereby; (ii) give and receive notices, instructions, and communications permitted or required under this Agreement, or any other agreement, document or instrument entered into or executed in connection herewith, for and on behalf of any Indemnifying Party, to or from Purchaser (on behalf of itself or any other Indemnified Person) relating to this Agreement or any of the transactions and other matters contemplated hereby or thereby (except to the extent that this Agreement expressly contemplates that any such notice or communication shall be given or received by each Indemnifying Party individually); (iii) review, negotiate and agree to and authorize the exercise by Purchaser (on behalf of itself or any other Indemnified Person, including by not objecting to such claims) of indemnification claims made by way of the Set-off Right or otherwise or claims to reduce the Special Cash Dividend; (iv) object to such claims pursuant to Section 9.4(c), 9.4(d) and 6.18; (v) consent or agree to, negotiate, enter into, or, if applicable, contest, prosecute or defend, settlements and compromises of, and demand arbitration and comply with orders of courts and awards of arbitrators with respect to, such claims, resolve any such claims, take any actions in connection with the resolution of any dispute relating hereto or to the transactions contemplated hereby by arbitration, settlement or otherwise, and take or forego any or all actions permitted or required of any Indemnifying Party or necessary in the judgment of the Shareholders' Agent for the accomplishment of the foregoing and all of the other terms, conditions and limitations of this Agreement; (vi) consult with legal counsel, independent public accountants and other experts selected by it, solely at the cost and expense of the Indemnifying Parties; (vii) consent or agree to any amendment to this Agreement or to waive any terms and conditions of this Agreement providing rights or benefits to the Indemnifying Parties in accordance with the terms hereof and in the manner provided herein; (viii) instruct the Paying Agent as to the allocation of payments under this Agreement among the Company Securityholders, to the extent that questions may arise with respect thereto; (ix) apply the Rep Reimbursement Amount to the payment of (or reimbursement of the Shareholders' Agent for) expenses and liabilities which the Shareholders' Agent may incur pursuant to this Agreement; and (x) take all actions necessary or appropriate in the judgment of the Shareholders' Agent for the accomplishment of the foregoing, in each case without having to seek or obtain the consent of any Person under any circumstance. Purchaser and its Affiliates shall be entitled to rely on the appointment of Nadav Goshen as the Shareholders' Agent and treat such Shareholders' Agent as the duly appointed attorney-in-fact of each Indemnifying Party and as having the duties, power and authority provided for in this Section 9.6. The Indemnifying Parties shall be bound by all actions taken and documents executed by the Shareholders' Agent in connection with this Section 9.6, and Purchaser and other Indemnified Persons shall be entitled to rely exclusively on any action or decision of the Shareholders' Agent. The Person serving as the Shareholders' Agent may be replaced from time to time by the Company Securityholders (including their assigns or transferees) who held a majority of the Company Share Capital on a Fully-Diluted Basis, immediately prior to Closing, upon not less than 30 days' prior written notice to Purchaser. No bond shall be required of the Shareholders' Agent.

(b) The Shareholders' Agent shall not be liable to any former holder of Company Share Capital for any act done or omitted hereunder as the Shareholders' Agent while acting in good faith (and any act done or omitted pursuant to the advice of counsel shall be conclusive evidence of such good faith) and without gross negligence or willful misconduct. The Shareholders' Agent shall serve as the Shareholders' Agent without compensation; *provided*, *that*, the Indemnifying Parties shall severally indemnify the Shareholders' Agent and hold him harmless against any loss, liability or expense incurred without gross negligence, willful misconduct or bad faith on the part of the Shareholders' Agent and arising out of or in connection with the acceptance or administration of his duties hereunder, including all reasonable out-of-pocket costs and expenses and legal fees and other legal costs reasonably incurred by the Shareholders' Agent.

(c) Any notice or communication given or received by, and any decision, action, failure to act within a designated period of time, agreement, consent, settlement, resolution or instruction of, the Shareholders' Agent that is within the scope of the Shareholders' Agent's authority under Section 9.6 (a) shall constitute a notice or communication to or by, or a decision, action, failure to act within a designated period of time, agreement, consent, settlement, resolution or instruction of all the Indemnifying Parties and shall be final, conclusive and binding upon each such Indemnifying Party; and each Indemnified Person shall be entitled to rely exclusively upon any such notice, communication, decision, action, failure to act within a designated period of time, agreement, consent, settlement, resolution or instruction as being a notice or communication to or by, or a decision, action, failure to act within a designated period of time, agreement, consent, settlement, resolution or instruction of, each and every such Indemnifying Party. This power of attorney is coupled with an interest and is irrevocable. Purchaser and the Indemnified Persons are hereby relieved from any Liability to any Person for any acts done by them in accordance with such notice, communication, decision, action, failure to act within a designated period of time, agreement, consent, settlement, resolution or instruction of the Shareholders' Agent.

(d) Shareholders' Agent shall treat confidentially and, subject to any Legal Requirement, not disclose any nonpublic information from or about Purchaser to anyone (except on a need to know basis to individuals (identified to Purchaser in writing in advance) who agree in writing to treat such information confidentially).

(e) The Shareholders' Agent shall be entitled to receive reimbursement from any Rep Reimbursement Amounts retained on behalf of the Shareholders' Agent, for any and all expenses, charges and liabilities, including reasonable attorneys' fees, incurred by the Shareholders' Agent in the performance or discharge of its rights and obligations under this Agreement (the "***Rep Expenses***"). The Rep Reimbursement Amount shall only be used for the payment of the Rep Expenses or as otherwise required by this Agreement.

9.7 Third-Party Claims.

(a) In the event Purchaser becomes aware of a third-party claim which Purchaser in good faith believes may result in an indemnification claim pursuant to this ARTICLE 9, Purchaser shall have the right in its sole discretion, with counsel reasonably satisfactory to the Shareholders' Agent, to conduct the defense of and to settle or resolve any such claim (and the reasonable costs and expenses incurred by Purchaser in connection with such defense, settlement or resolution (including reasonable attorneys' fees, other professionals' and experts' fees and court or arbitration costs) shall be included in the Indemnifiable Damages for which Purchaser may seek indemnification pursuant to a claim made hereunder); *provided, however*, that if Purchaser settles or compromises any such claim without the consent of the Shareholders' Agent, such settlement or compromise shall not be conclusive evidence of the amount of Indemnifiable Damages incurred by Purchaser in connection with such claim (it being understood that if Purchaser requests that the Shareholders' Agent consent to a settlement or compromise, the Shareholders' Agent shall not unreasonably withhold or delay such consent). Purchaser shall timely notify the Shareholders' Agent of a third-party claim, the Shareholders' Agent shall have the right to receive copies of all pleadings, notices and communications with respect to the third-party claim to the extent that receipt of such documents does not affect any privilege relating to any Indemnified Person and shall be entitled, at its sole option and expense, to participate in, but not to determine or conduct, any defense of the third-party claim or settlement negotiations with respect to the third-party claim. In the event that the Shareholders' Agent has consented to any such settlement or resolution, neither the Shareholders' Agent nor any Indemnifying Party shall have any power or authority to object to the amount of any claim by or on behalf of any Indemnified Person pursuant to this ARTICLE 9 with respect to such settlement or resolution but only to the extent that the amount of any such claim by or on behalf of any Indemnified Person exceeds the amount consented to by the Shareholders' Agent.

(b) Notwithstanding the provision of Section 9.7(a), the Shareholders' Agent shall have the right in its sole discretion, with counsel reasonably satisfactory to Purchaser, to conduct the defense of and to settle or resolve any claim that may give rise to indemnification (i) under Section 9.1(a)(vii) and any related tax audits and (ii) under Section 9.1(a)(x) (collectively, an "***Excluded Claim***"), provided that any settlement or compromise of an Excluded Claim shall require the prior written consent of Purchaser (which consent shall not be unreasonably withheld or delayed). Purchaser shall promptly notify the Shareholders' Agent of any communication made by the ITA or other Person that may reasonably lead to an Excluded Claim. The costs and expenses incurred by Shareholders' Agent in connection with the defense of an Excluded Claim shall be borne by the Indemnifying Parties. Purchaser shall have the right to receive copies of all pleadings, notices and communications with respect to an Excluded Claim and shall be entitled, at its sole option and expense, to participate in, but not to determine or conduct, any defense of an Excluded Claim or settlement negotiations with respect to an Excluded Claim.

9.8 Treatment of Indemnification Payments. The Indemnifying Parties, the Shareholders' Agent and Purchaser agree to treat (and cause their Affiliates to treat) any payment received or set-off pursuant to this ARTICLE 9 as adjustments to the Aggregate Consideration for all Tax purposes, to the maximum extent permitted by Legal Requirements.

9.9 Form of Indemnification Payments.

(a) For any indemnification obligation of any Indemnifying Party owing to Purchaser (but not to any other Indemnified Person) which is not satisfied by way of the Set-off Right pursuant to this ARTICLE 9, such Indemnifying Party may, in its sole discretion, satisfy a portion of such indemnification obligation (the "***Equity Portion***") in the form of Purchaser Ordinary Shares issued to such Indemnifying Party pursuant to this Agreement. Such Indemnifying Party's Equity Portion shall equal the portion of the consideration paid to such Indemnifying Party (including any consideration paid to the Paying Agent for the benefit of such Indemnifying Party) in the form of Purchaser Ordinary Shares, as set forth in the Closing Spreadsheet. The number of Purchaser Ordinary Shares that may be paid pursuant to this Section 9.9(a) shall be determined by dividing (x) the amount of Indemnifiable Damages to be paid by such Indemnifying Party multiplied by such Indemnifying Party's Equity Portion by (y) the Market Value; provided, however, that Seller shall pay in cash to the extent that (i) such Indemnifiable Damages consist of out-of-pocket expenses of Purchaser or (ii) in the reasonable opinion of counsel to Purchaser, Purchaser is prohibited by the Israeli Companies Law, 1999 (without a court order) to repurchase its shares.

(b) Purchaser shall pay any of its indemnification obligations pursuant to Section 9.1(b) in cash.

ARTICLE 10
General Provisions

10.1 Survival of Representations and Warranties and Covenants. If the Share Purchase is consummated, the representations and warranties of the Company, the Israeli Subsidiary and the Company Shareholders contained in this Agreement, the Company Disclosure Letter (including any exhibit or schedule to the Company Disclosure Letter) and the other certificates contemplated hereby shall survive the Closing and remain in full force and effect, regardless of any investigation made by or on behalf of Purchaser, until the 12-month anniversary of the Closing Date or, in the event that a Applicable ChangeAnnouncement, if such announcement ultimately results in an Applicable Change, shall occur prior to the 12-month anniversary of the Closing Date, until the 18-month anniversary of the Closing Date; *provided*, *however*, that the Special Representations and the representations and warranties of the Company and the Israeli Subsidiary contained in any certificate delivered to Purchaser regarding the same subject matter as those covered by the Special Representations pursuant to any provision of this Agreement, will remain in full force and effect, regardless of any investigation made by or on behalf of Purchaser, until after the expiration of the applicable statute of limitations (if later than the expiration of 18 months following the Closing Date) for claims against the Indemnifying Parties which seek recovery of Indemnifiable Damages pursuant to the terms of this ARTICLE 9, to the extent arising out of an inaccuracy or breach of such representations or warranties, except that representations and warranties set forth in Section 2.9 (Intellectual Property) shall remain in full force and effect, regardless of any investigation made by or on behalf of Purchaser, for a period of thirty-six (36) months following the Closing Date; *provided*, *however*, that no right to indemnification pursuant to ARTICLE 9 in respect of any claim delivered to the Shareholders' Agent prior to the expiration of the applicable survival period shall be affected by the expiration of such representations and warranties; and *provided further*, that such expiration shall not affect the rights of any Indemnified Person under ARTICLE 9 or otherwise to seek recovery of Indemnifiable Damages arising out of the matters listed in clauses (iii) – (xi) of Section 9.1(a) or any fraud of the Company, the Israeli Subsidiary or their respective officers or directors or any Company Securityholders to the extent in connection with the Company, the Israeli Subsidiary, this Agreement, the Share Purchase and the other transactions contemplated hereby until the expiration of the applicable statute of limitations. If the Share Purchase is consummated, all covenants of the parties shall expire and be of no further force or effect as of the Closing, except to the extent such covenants are to be performed after the Closing.

10.2 Notices. All notices and other communications hereunder shall be in writing and shall be deemed given if delivered personally or by commercial delivery service, or mailed by registered or certified mail (return receipt requested) or sent via facsimile (with confirmation of receipt) to the parties hereto at the following address (or at such other address for a party as shall be specified by like notice):

(i) if to Purchaser, to:

Perion Network Ltd.
4 Ha'Nechoset Street
Tel Aviv 69710, Israel
Attention: General Counsel
Facsimile No.: +972-3-644-5502

with a copy (which shall not constitute notice) to:

Goldfarb Seligman & Co.
Electra Tower
98 Yigal Alon Street
Tel-Aviv 67891, Israel
Attention: Adam M. Klein, Adv.
Facsimile No.: +972 (3) 521- 2212

(ii) if to the Company or the Israeli Subsidiary, to:

SweetIM Technologies Ltd.
14 Hacharoshet Street
Ra'anana, Israel
Attention: Nadav Goshen, CEO

with a copy (which shall not constitute notice) to:

Herzog, Fox & Neeman
Asia House
4 Weizmann Street
Tel Aviv, Israel
Attention: Hanan Haviv, Adv.
Facsimile No.: +972-3-6966464

(iii) If to the Shareholders' Agent, to:

Nadav Goshen
7 Hagefen Street
Herzelia, Israel
Facsimile No.: 15397732202

with a copy (which shall not constitute notice) to:

Herzog, Fox & Neeman
Asia House
4 Weizmann Street
Tel Aviv, Israel
Attention: Hanan Haviv, Adv.
Facsimile No.: +972-3-6966464

10.3 Interpretation. When a reference is made in this Agreement to Articles, Sections or Exhibits, such reference shall be to an Article or Section of, or an Exhibit to this Agreement unless otherwise indicated. The headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. The words "include," "includes" and "including" when used herein shall be deemed in each case to be followed by the words "without limitation." The phrases "provided to," "furnished to," and phrases of similar import when used herein, unless the context otherwise requires, shall mean that a true, correct and complete copy of the information or material referred to has been provided to the party to whom such information or material is to be provided. Unless the context of this Agreement otherwise requires: (i) words of any gender include each other gender; (ii) words using the singular or plural number also include the plural or singular number, respectively; and (iii) the terms "hereof," "herein," "hereunder" and derivative or similar words refer to this entire Agreement. Any reference in this Agreement to the "Company" shall be deemed to be a reference to the Company and each of its Subsidiaries (separately and in the aggregate), except to the extent otherwise specified herein or required by the context of the use of the word "Company" herein. Any dollar amounts or thresholds indicated in this Agreement shall not be an admission or be reflective of what is or may be deemed to be material or a "Material Adverse Effect."

10.4 Counterparts. This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same instrument and shall become effective when one or more counterparts have been signed by each of the parties hereto and delivered to the other parties hereto; it being understood that all parties hereto need not sign the same counterpart.

10.5 Entire Agreement; Nonassignability; Parties in Interest. This Agreement and the documents and instruments and other agreements specifically referred to herein or delivered pursuant hereto, including all the exhibits attached hereto, the Schedules, including the Company Disclosure Letter, (a) constitute the entire agreement among the parties hereto with respect to the subject matter hereof and supersede all prior agreements and understandings, both written and oral, among the parties hereto with respect to the subject matter hereof, except for the Confidentiality Agreement, which shall continue in full force and effect, and shall survive any termination of this Agreement, in accordance with its terms, (b) are not intended to confer, and shall not be construed as conferring, upon any Person other than the parties hereto any rights or remedies hereunder (except that ARTICLE 9 is intended to benefit Indemnified Persons and Section 6.18 is intended to benefit the current and former directors and officers of the Company) and (c) shall not be assigned by operation of law or otherwise except as otherwise specifically provided herein.

10.6 Assignment. Neither this Agreement nor any of the rights, interests or obligations under this Agreement may be assigned or delegated, in whole or in part, by operation of law or otherwise by any of the parties hereto without the prior written consent of the other parties hereto, and any such assignment without such prior written consent shall be null and void, except that Purchaser may assign this Agreement to any direct or indirect wholly owned subsidiary of Purchaser without the prior consent of any other party hereto; *provided*, *however*, that Purchaser shall remain liable for all of its obligations under this Agreement. Subject to the preceding sentence, this Agreement shall be binding upon, inure to the benefit of, and be enforceable by, the parties hereto and their respective successors and assigns.

10.7 Severability. In the event that any provision of this Agreement, or the application thereof, becomes or is declared by a court of competent jurisdiction to be illegal, void or unenforceable, the remainder of this Agreement shall continue in full force and effect and shall be interpreted so as reasonably necessary to effect the intent of the parties hereto. The parties hereto shall use all reasonable efforts to replace such void or unenforceable provision of this Agreement with a valid and enforceable provision that shall achieve, to the extent possible, the economic, business and other purposes of such void or unenforceable provision.

10.8 Remedies. Except as otherwise provided herein, any and all remedies herein expressly conferred upon a party hereto shall be deemed cumulative with and not exclusive of any other remedy conferred hereby, or by law or equity upon such party, and the exercise by a party hereto of any one remedy shall not preclude the exercise of any other remedy and nothing in this Agreement shall be deemed a waiver by any party of any right to specific performance or injunctive relief. The parties hereto agree that irreparable damage would occur if any provision of this Agreement were not performed in accordance with the terms hereof and it is accordingly agreed that the parties shall be entitled to an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions hereof, this being in addition to any other remedy to which they are entitled at law or in equity, and the parties hereby waive the requirement of any posting of a bond in connection with the remedies described herein, to the extent applicable.

10.9 Governing Law. Except to the extent that the Belize International Business Companies Act is required to apply hereto, in which event it will apply to and only to that extent, this Agreement shall be governed by and construed solely in accordance with the laws of the State of Israel, regardless of the laws that might otherwise govern under applicable principles of conflicts of laws thereof.

10.10 Arbitration; Consent to Service of Process.

(a) IN THE EVENT THAT A RESOLUTION IS NOT REACHED AMONG THE PARTIES WITHIN 30 DAYS AFTER WRITTEN NOTICE OF A DISPUTE, THE DISPUTE SHALL BE FINALLY SETTLED BY BINDING ARBITRATION IN ACCORDANCE WITH THE ARBITRATION AGREEMENT SET FORTH IN SECTION 9.5(c) HEREOF.

(b) Subject to the foregoing, the parties hereto hereby irrevocably submit to the exclusive jurisdiction of the Tel-Aviv-Jaffa District Court in connection with any matter based upon or arising out of this Agreement or the matters contemplated herein, agree that process may be served upon them in any manner authorized by the laws of the State of Israel for such persons and waive and covenant not to assert or plead any objection which they might otherwise have to such jurisdiction, venue and such process, and each party agrees not to commence any legal proceedings related hereto except in such courts. A party may apply either to a court of competent jurisdiction or to an arbitrator, if one has been appointed, for prejudgment remedies and emergency relief pending final determination of a claim pursuant to this Section 10.10. The appointment of an arbitrator does not preclude a party from seeking prejudgment remedies and emergency relief from a court of competent jurisdiction.

10.11 Rules of Construction. The parties hereto have been represented by counsel during the negotiation, preparation and execution of this Agreement and, therefore, hereby waive, with respect to this Agreement, each Schedule and each Exhibit attached hereto, the application of any law, regulation, holding or rule of construction providing that ambiguities in an agreement or other document shall be construed against the party drafting such agreement or document

10.12 No Set-Off. Except as set forth in this Agreement, no party shall have the right to set-off from payments due to another party pursuant to this Agreement, against payments due to it from such other party.

[Signature Pages Follow]

IN WITNESS WHEREOF, Purchaser, the Company, the Company Shareholders, and the Shareholders' Agent have caused this Share Purchase Agreement to be executed and delivered by their respective officers thereunto duly authorized (or with respect to those Company Shareholders who are individuals, personally), all as of the date first written above.

Perion Network Ltd.

By: /s/ Josef Mandelbaum /s/ Yacov Kaufman
Name: Josef Mandelbaum Yacov Kaufman
Title: CEO CFO

SweetIM Ltd.

By: /s/ Nadav Goshen
Name: Nadav Goshen

SweetIM Technologies Ltd.

By: /s/ Nadav Goshen
Name: Nadav Goshen
Title: CEO

Shareholders' Agent

By: /s/ Nadav Goshen
Name: Nadav Goshen

IN WITNESS WHEREOF, Purchaser, the Company, the Company Shareholders, and the Shareholders' Agent have caused this Share Purchase Agreement to be executed and delivered by their respective officers thereunto duly authorized (or with respect to those Company Shareholders who are individuals, personally), all as of the date first written above.

The Company Shareholders[1]

By: _____
Name: _____
Title: _____
Amount of Company Ordinary Shares Held:
_____
Amount of Company Series A Preferred Shares Held:_____
Amount of Company Series B Preferred Shares Held:
_____
Amount of Company Options Held:
_____
Amount of Warrants Held:
_____
Amount of Company Shares Held by the 102 Trustee:
_____

FOR COMPANY SHAREHOLDERS RECEIVING PURCHASER ORDINARY SHARES:

Please check the box below acknowledging whether you are a Regulation D Investor and/or Regulation S Investor:

☐ Regulation D Investor

☐ Regulation S Investor

If the Company Shareholder is a resident of the State of Israel, please check the applicable box(es) below certifying whether or not you are a Qualified Israeli Investor:

☐ Is not a Qualified Israeli Investor

☐ Is a Qualified Israeli Investor, as specified in one of the following categories (*please check the applicable box(es)*):

❑ a venture capital fund. For the purpose hereof, a "venture capital fund" is an entity primarily involved in investments in entities which, at the time of investment, are engaged primarily in research and development or manufacture of innovative, high-technology products or processes, which investments involve above-average risk;

❑ an entity wholly owned by "exempt investors" under Israeli law (including those on this list);

❑ an entity, other than an entity organized for the purpose of purchasing securities in a certain offering, with equity capital greater than NIS 50 million; or

❑ an individual who meets the qualifications set forth in Section 9 of the Addendum to the Israeli Arrangement of Investment Advising and Investment Portfolio Management Law, 5755-1995, purchasing for himself, i.e., an individual who meets any two of the following conditions: (1) the aggregate value of the cash, deposits, financial assets and securities owned by the individual exceeds NIS 12 million; (2) the individual has expertise and skills in the capital market field or was employed for at least one year in a professional position that requires capital market expertise; and (3) the individual has executed at least 30 transactions, on average, in each quarter during the four quarters preceding the date hereof, not including transactions executed by a portfolio manager for such individual pursuant to a portfolio management agreement. *If you check this category on the basis of condition no. 2, please specify the source of your applicable expertise and/or the professional position*.
_____ _____

1 Note: For shares held by the 102 Trustee, the signature page will be signed by the beneficial holder and the record holder (i.e., 102 Trustee and the shareholder).

EXHIBIT A

COMPANY SHAREHOLDERS

Amir Amit
Ben Garrun
Dan Gotlieb
Esti Selickter
Gigi Levy
Holine Finance Ltd.
Ilan Weintrob
Learnicom LLC
Moshe Cohen
Purple Martin Ltd.
Roee Mor
Rami Gorali
Robert Sherman
Tamir Kremener
Zach Sigal
Yoram Shiv (as trustee for Ari Jedeikin, Eran Brener, Itay Rokni, Itzik Shrik, Keren Arieli, Roee Mor, Udi Vacks)

EXHIBIT B

DEFINITIONS

As used in this Agreement, the following terms shall have the meanings indicated below. Unless indicated otherwise, all mathematical calculations contemplated hereby shall be rounded to the tenth decimal place.

"***102 Trustee***" the trustee approved by the Israeli Tax Authority with respect to the Company Option Plan for the purpose of Section 102(b).

"***Affiliate***" has the meaning set forth in Rule 144 promulgated under the Securities Act.

"***Aggregate Cash Consideration***" means the aggregate Cash Consideration payable to Company Shareholders.

"***Aggregate Consideration***" means the sum of the Aggregate Cash Consideration and the Aggregate Share Consideration pursuant to the Closing Spreadsheet.

"***Aggregate Share Consideration***" means the number of Purchaser Ordinary Shares payable to Company Shareholders pursuant to the Closing Spreadsheet.

"***Business***" means (i) the development and distribution of client applications to enhance user communication by adding icons and emoticons to any communication service such as social networking sites, (ii) the development and distribution of search related services and assets such as toolbar, add-ons and home page, and (iii) business intelligence and analytics relating to marketing services of (i) and (ii).

"***Business Day***" means a day (A) other than Saturday or Sunday and (B) on which commercial banks are open for business in Israel.

"***Cash***" means cash, cash equivalents and marketable securities of the Israeli Subsidiary, as determined in accordance with GAAP consistently applied.

"***Cash Consideration***" means the cash amount payable to a Company Shareholder pursuant to the Closing Spreadsheet.

"***Closing Allocation Certificate***" means a form of certificate to be delivered to and certified by each Company Shareholder and Company Optionholder setting forth each such Person's and only such Person's information contained in the Closing Spreadsheet in substantially the form attached hereto as Exhibit G.

"***Code***" shall mean the Internal Revenue Code of 1986, as amended.

"***Company Employee***" means any current or former employee of the Company or the Israeli Subsidiary.

"***Company Employee Agreement***" means each management, employment, severance, relocation, repatriation or expatriation agreement or other Contract between the Company or the Israeli Subsidiary, and any Company Employee.

"***Company Employee Plan***" means any plan, program, policy, practice, Contract or other arrangement providing for compensation, severance, pension arrangement and any other provident fund, termination pay, deferred compensation, performance awards, stock or stock-related awards, fringe benefits or other employee benefits or remuneration of any kind, whether written, unwritten or otherwise, funded or unfunded, that is or has been maintained, contributed to, or required to be contributed to, by the Company or the Israeli Subsidiary for the benefit of any Company Employee, or with respect to which the Company or the Israeli Subsidiary has or may have any liability or obligation, excluding any Company Employee Agreement.

"***Company Founders***" means Robert Sherman and Ben Garrun.

"***Company Option Plan***" means, collectively, each stock option plan, program or arrangement of the Company or the Israeli Subsidiary.

"***Company Optionholders***" means the holders of Company Options, vested and unvested, immediately prior to the Closing (unless the context otherwise requires).

"***Company Options***" means options to purchase Company Ordinary Shares or Company Preferred Shares that are issued and outstanding as of the Closing (unless the context otherwise requires).

"***Company Ordinary Shares***" means the Ordinary Shares of the Company, par value US$ 0.01 each.

"***Company Preferred Shares***" means the Company Series A Preferred Shares and the Company Series B Preferred Shares.

"***Company Securityholders***" means the Company Shareholders and Company Optionholders, collectively.

"***Company Series A Preferred Shares***" means the Series A Preferred Shares of the Company, par value US$ 0.01 each.

"***Company Series B Preferred Shares***" means the Series B Preferred Shares of the Company, par value US$ 0.01 each.

"***Company Share Capital***" means the share capital of the Company.

"***Company Shareholders***" means the holders of Company Ordinary Shares and the holders of Company Preferred Shares, in each case, immediately prior to the Closing (unless the context otherwise requires).

"***Company Shares***" means the Company Ordinary Shares and the Company Preferred Shares.

"***Consent***" means any permit, authorization, approval, consent, ratification, permission, waiver or authorization (including any Governmental Authorization).

"***Consultant***" any Person engaged by the Company or the Israeli Subsidiary on an independent contractor status basis including, services providers, consultants and manpower companies, excluding companies providing placement services and their employees, freelancers and sub-contractors.

"***Contract***" means any written or oral legally binding contract, agreement, instrument, commitment or undertaking of any nature (including leases, licenses, mortgages, notes, guarantees, sublicenses, subcontracts, letters of intent and purchase orders) as of the Agreement Date or as may hereafter be in effect.

*"**Domiciliation Application**"* means the application, dated August 14, 2012, filed with the ITA on behalf of the Company requesting (a) that the Company be recognized as an Israeli tax resident as of January 1, 2012, (b) confirmation that the Company (except the Israeli Subsidiary) does not have any outstanding Israeli income tax liability in respect of the period ended December 31, 2011, and (c) the tax-free transfer of intellectual property rights from the Company to the Israeli Subsidiary pursuant to Section 104A of the Israeli Income Tax Ordinance.

"***Domiciliation Ruling***" means a valid tax ruling issued by the ITA in response to the Domiciliation Application.

"***Encumbrance***" means, with respect to any asset, any mortgage, deed of trust, lien, pledge, charge, security interest, title retention device, conditional sale or other security arrangement, collateral assignment, claim, charge, adverse claim of title, ownership or right to use, restriction or other encumbrance of any kind in respect of such asset (including any restriction on (i) the voting of any security or the transfer of any security or other asset, (ii) the receipt of any income derived from any asset, (iii) the use of any asset, and (iv) the possession, exercise or transfer of any other attribute of ownership of any asset).

"***Environmental Laws***" means all laws (including common laws), directives, guidance, rules, regulations, orders, treaties, statutes, and Codes promulgated by any Governmental Entity which prohibit, regulate or control any Hazardous Material or any Hazardous Material Activity, including, without limitation, the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, the Resource Recovery and Conservation Act of 1976, the Federal Water Pollution Control Act, the Clean Air Act, the Hazardous Materials Transportation Act, the Clean Water Act, the European Union Directive 2002/96/EC on waste electrical and electronic equipment, the European Union Directive 2002/95/EC on the restriction on the use of hazardous substances, and the Administrative Measure on the Control of Pollution Caused by Electronic Information Products, all as amended at any time.

"***Exchange Act***" means the Securities Exchange Act of 1934, as amended.

"***Fully-Diluted Basis***" means all issued and outstanding shares of ordinary shares, preferred shares and other kinds of capital stock or voting securities, with all convertible and exercisable securities (or other rights to acquire capital stock) deemed converted or exercised, as the case may be, into shares of capital stock in accordance with their terms, whether or not then currently vested, exercisable, exchangeable or convertible.

"***Fully-Diluted Company Ordinary Shares***" means the sum, without duplication, of (i) the aggregate number of shares of Company Ordinary Shares that are issued and outstanding immediately prior to the Closing, (ii) the aggregate number of Company Options that are issued and outstanding immediately prior to the Closing and (iii) the aggregate number of shares of Company Preferred Shares that are issued and outstanding immediately prior to the Closing, each on an as-converted to Company Ordinary Share basis.

*"**GAAP**"* shall mean generally accepted accounting principles in the United States, consistently applied, as in effect at the time covered by the applicable financial statements.

*"**Governmental Authorization**"* means any: permit, license, certificate, franchise, permission, clearance, registration, qualification or authorization issued, granted, given or otherwise made available by or under the authority of any Governmental Entity or pursuant to any Legal Requirement.

"***Governmental Entity***" means any supranational, national, state, municipal, local or foreign government, any court, tribunal, arbitrator, administrative agency, commission or other governmental official, authority or instrumentality, in each case whether domestic or foreign, any stock exchange or similar self-regulatory organization or any quasi-governmental or private body exercising any regulatory, Taxing or other governmental or quasi-governmental authority (including any governmental division, department, agency, commission, instrumentality, official, organization, unit, body or entity and any court or other tribunal).

"***Hazardous Materials***" means any material, chemical, emission or substance that has been designated by any Governmental Entity to be radioactive, toxic, hazardous, a pollutant or otherwise a danger to health, reproduction or the environment.

"***Hazardous Materials Activities***" means the transportation, transfer, recycling, storage, use, treatment, manufacture, removal, disposal, remediation, release, exposure of others to, sale, labeling, or distribution of any Hazardous Material or any product or waste containing a Hazardous Material, or product manufactured with ozone depleting substances, including, without limitation, any required labeling, payment of waste fees or charges (including so-called e-waste fees) and compliance with any recycling, product take-back or product content requirements.

"***Indebtedness***" means (i) all Indebtedness for borrowed money or for the deferred purchase price of property or services (other than current trade liabilities incurred in the ordinary course of business and payable in accordance with customary practices), (ii) any other Indebtedness that is evidenced by a note, bond, debenture or similar instrument, (iii) all obligations under financing leases, (iv) all obligations in respect of acceptances issued or created, (v) all liabilities secured by any Encumbrance on any property and (vi) all guarantee obligations.

"***Indemnifiable Transaction Expenses***" means any Transaction Expenses. All Indemnifiable Transaction Expenses shall constitute "Indemnifiable Damages" for purposes of ARTICLE 9.

*"**IP Infringement Qualifier**"* shall mean that following the first year anniversary of the Closing Date, the third sentence of the representation in section 2.9(j) shall be qualified by the Company's knowledge.

"***Israeli Subsidiary Share Capital***" means the share capital of the Israeli Subsidiary.

"***Israeli Subsidiary Shareholder***" means the sole holder of share capital of the Israeli Subsidiary, which is the Company.

"***knowledge***" means, information or matters of which (A)(i) with respect to the Company or the Israeli Subsidiary, each of the directors of the Israeli Subsidiary and, (ii) with respect to Purchaser, its Chief Executive Officer and Chief Financial Officer, and (iii) with respect to each Company Shareholder that is not an individual, the principal executive officer and principal financial officer (in case of a company), or General Partner (in case of a partnership), of such Company Shareholder, actually know or (B) solely in the case of the Company and/or the Israeli Subsidiary, a principal executive officer, principal financial officer or chief technology officer should have reasonably known given the nature of his duties in the Company or the Israeli Subsidiary, as applicable.

"***Legal Requirements***" means any federal, state, foreign, local, municipal or other law, statute, constitution, principle of common law, ordinance, Code, edict, decree, rule, regulation, ruling or requirement issued, enacted, adopted, promulgated, implemented or otherwise put into effect by or under the authority of any Governmental Entity and any orders, writs, injunctions, awards, judgments and decrees issued against or applicable to the Company or any Subsidiary or any of their respective assets, properties or businesses, as of the Agreement Date or the Closing Date, as applicable.

"***Liabilities***" means all debts, liabilities and obligations, whether accrued or fixed, absolute or contingent, matured or unmatured, determined or determinable, asserted or unasserted, known or unknown, including those arising under any law, action or governmental order and those arising under any Contract, regardless of whether such debt, liability or obligation would be required to be disclosed on a balance sheet prepared in accordance with GAAP.

"***Material Adverse Effect***" with respect to any entity means any change, event, violation, inaccuracy, circumstance or effect (each, an "***Effect***") that, individually or taken together with all other Effects, and regardless of whether or not such Effect constitutes a breach of the representations or warranties made by such entity in this Agreement, is, or would reasonably likely to, (i) be or become materially adverse in relation to the near-term or longer-term condition (financial or otherwise), properties, assets (including intangible assets), liabilities, business, prospects or results of operations of such entity and its subsidiaries, taken as a whole, except to the extent that any such Effect directly results from: (A) changes in general economic conditions (provided that such changes do not affect such entity disproportionately as compared to such entity's competitors); (B) changes affecting the industry generally in which such entity operates (provided that such changes do not affect such entity disproportionately as compared to such entity's competitors); (C) changes in GAAP (provided that such changes do not affect such entity disproportionately as compared to such entity's competition); or (D) the announcement or pendency of the Share Purchase or (ii) materially impede or delay such entity's ability to consummate the transactions contemplated by this Agreement in accordance with its terms and applicable Legal Requirements. For the avoidance of doubt, the payment of the Special Cash Dividend shall not be deemed a Material Adverse Effect.

"***OCS***" means the Israeli Office of the Chief Scientist of the Ministry of Industry, Trade & Labor.

"***Permitted Encumbrances***" means: (A) statutory liens for Taxes that are not yet due and payable or liens for Taxes being contested in good faith by any appropriate proceedings for which adequate reserves have been established; (B) statutory liens to secure obligations to landlords, lessors or renters under leases or rental agreements; (C) deposits or pledges made in connection with, or to secure payment of, workers' compensation, unemployment insurance or similar programs mandated by applicable law; (D) statutory liens in favor of carriers, warehousemen, mechanics and materialmen, to secure claims for labor, materials or supplies and other like liens; (E) liens in favor of customs and revenue authorities arising as a matter of Legal Requirements to secure payments of customs duties in connection with the importation of goods, and (F) non-exclusive object code licenses of software by the Company or a Subsidiary in the ordinary course of its business consistent with past practice on its standard unmodified form of customer agreement (a copy of which has been provided to Purchaser's counsel).

"***Person***" means any natural person, company, corporation, limited liability company, general partnership, limited partnership, limited liability partnership, joint stock company, association, unincorporated organization, group, trust, estate, proprietorship, joint venture, business organization, Governmental Entity or any other type of entity.

"***Pro Rata Share***" means, with respect to a Company Securityholder, the quotient obtained by dividing (a) the number of Ordinary Shares held on the Closing Date by the Company Securityholder, on an as converted basis, by (b) the issued and outstanding capital stock of the Company on a Fully-Diluted Basis as of the Closing Date.

"***Purchaser Ordinary Shares***" or "***Shares***" means the Ordinary shares, par value NIS 0.01 per share, of Purchaser.

"***Representatives***" of any Person shall mean such Person's directors, managers, officers, employees, agents, attorneys, consultants, advisors or other Persons acting on behalf of such Person.

"***Securities Act***" means the Securities Act of 1933, as amended.

"***Set-off Amount***" means the amount of cash held back by Purchaser from the Deferred Payment and/or the Contingent Payment, pursuant to Section 9 of this Agreement.

"***Share Transfer***" means the procedures and the actions required to transfer ownership of the Company Shares from the Company Shareholder to Purchaser under the Articles of Association of the Company.

"***Subsidiary***" means any corporation, association, business entity, partnership, limited liability company or other Person or entity of which the Company, either alone or together with one or more of such entities (i) directly or indirectly owns or purports to own, beneficially or of record securities or other interests representing more than 50% of the outstanding equity, voting power, or financial interests of such Person, or (ii) is entitled, by Contract or otherwise, to elect, appoint or designate directors constituting a majority of the members of such Person's board of directors or other governing body.

"***Tax***" (and, with correlative meaning, "***Taxes***" and "***Taxable***") means (i) any net income, alternative or add-on minimum tax, gross income, estimated, gross receipts, sales, use, ad valorem, value added, transfer, franchise, fringe benefit, share capital, profits, license, registration, withholding, payroll, social security (or equivalent), employment, unemployment, disability, excise, severance, stamp, occupation, premium, property (real, tangible or intangible), environmental or windfall profit tax, custom duty or other tax, governmental fee or other like assessment or charge of any kind whatsoever, together with any interest or any penalty, addition to tax or additional amount (whether disputed or not) imposed by any Governmental Entity responsible for the imposition of any such tax (domestic or foreign) (each, a "***Tax Authority***"), (ii) any Liability for the payment of any amounts of the type described in clause (i) of this sentence as a result of being a member of an affiliated, consolidated, combined, unitary or aggregate group for any Taxable period, and (iii) any Liability for the payment of any amounts of the type described in clause (i) or (ii) of this sentence as a result of being a transferee of or successor to any Person or as a result of any express or implied obligation to assume such Taxes or to indemnify any other Person.

"***Tax Return***" means any return, statement, report or form (including estimated Tax returns and reports, withholding Tax returns and reports, any schedule or attachment, and information returns and reports) filed or required to be filed with respect to Taxes.

"***Transaction Expenses***" means all third party fees, costs, expenses, payments, and expenditures incurred by the Company in connection with the Share Purchase, this Agreement and the transactions contemplated hereby whether or not billed or accrued (including any fees, costs expenses, payments, and expenditures of legal counsel and accountants, the fees, costs, expenses, payments, and expenditures payable to financial advisors, investment bankers and brokers of the Company and the Israeli Subsidiary notwithstanding any contingencies for earnouts, withholdings, etc.), and any such fees, costs, expenses, payments, and expenditures incurred by Company Securityholders paid for or to be paid for by the Company.

"***Transaction Expenses Certificate***" means a certificate executed by the Authorized Person dated as of the Closing Date, certifying the amount of Transaction Expenses not paid by the Closing Date (including an itemized list of each Transaction Expense with a description of the nature of such expense and the Person to whom such expense was or is owed). The Transaction Expenses Certificate shall include a representation of the Company, certified by the Authorized Person, that such certificate includes all of the Transaction Expenses not yet paid as of the Closing Date.

Other capitalized terms defined elsewhere in this Agreement and not defined in this Exhibit B shall have the meanings assigned to such terms in this Agreement.

AMENDMENT NO. 1 TO SHARE PURCHASE AGREEMENT

THIS AMENDMENT NO. 1 TO THE SHARE PURCHASE AGREEMENT (this "**Amendment**"), made and entered into as of November 30, 2012, by and among Perion Network Ltd., a company formed under the laws of Israel ("**Purchaser**"), and Nadav Goshen as "**Shareholders' Agent**" (each of the Purchaser and the Shareholders' Agent referred to herein individually as a "**Party**", and collectively as the "**Parties**").

WHEREAS the Purchaser and the Shareholders' Agent are parties to that certain Share Purchase Agreement, dated as of November 7, 2012 (the "**Purchase Agreement**"), by and among the Purchaser, SweetIM Ltd., SweetIM Technologies Ltd., the Company Shareholders listed on Exhibit A to the Purchase Agreement, and Nadav Goshen as "**Shareholders' Agent**"; and

WHEREAS the Parties agree to amend the Purchase Agreement pursuant to the below.

NOW THEREFORE, in consideration of the mutual promises herein made, the parties hereby agree as follows:

1. The preamble and the schedules attached hereto constitute an integral part hereof.

2. Capitalized terms in this Amendment shall have the same meaning as in the Purchase Agreement, unless otherwise expressly stated herein.

3. Section 1.5(h) of the Purchase Agreement is hereby replaced in its entirety with the following:

   3.1. Without derogating from the right of the Purchaser to receive the Negative Adjustment Amount pursuant to Section (g), Purchaser shall pay the lower of (i) the amount by which the Company Net Working Capital is higher than the Cash as of the Closing Date, and (ii) the Google Payments actually received by the Company following the Closing (the "***Google Adjustment Amount***"). The Purchaser shall transfer such payment to the Paying Agent within 3 Business Days of final determination of the Company Net Working Capital under this Section 1.5 and shall instruct the Paying Agent to distribute such amounts to the Company Securityholders in accordance with the provisions of the Paying Agent Agreement and this Agreement, in accordance with each Company Securityholder's Pro Rata Share of such amount, less applicable withholdings. Notwithstanding the foregoing, any Cash Consideration and Option Amount payable pursuant this Section 1.5(h) to Company Shareholders and Company Optionholders, as applicable, holding Company Shares and Company Options pursuant to Section 102(b) shall be paid to the 102 Trustee. Notwithstanding anything in this Agreement, the Google Adjustment shall be reduced by $422,600 (the "***Purchaser Adjustment Amount***"). In the event that the Google Adjustment Amount shall be *less* than the Purchaser Adjustment Amount, Purchaser shall be entitled to reduce the Deferred Payment by the amount that is equal to the Purchaser Adjustment Amount *less* the Google Adjustment Amount.

4. Section 10.12 of the Purchase Agreement is hereby replaced in its entirety with the following:

   "No Set-Off. Except as set forth in this Agreement, no party shall have the right to set-off from payments due to another party pursuant to this Agreement, against payments due to it from such other party, unless the party to whom a payment is due agrees to such set-off."

5. The following is hereby added as Section 6.19 of the Purchase Agreement:

   "Company Shareholder Registry. Immediately after the Closing, the Shareholders' Agent shall use his best efforts and fully cooperate with the Company to cause the official shareholder registry of the Company to be prepared by the Registered Agent reflecting Purchaser as the sole shareholder of the Company."

6. This Amendment is made in accordance with Section 8.3 of the Purchase Agreement, and constitutes an integral part thereof.

7. Except as expressly stated in this Amendment, the Purchase Agreement shall remain unchanged.

8. This Amendment may be executed in any number of counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument. A signed Amendment received by a Party via facsimile or electronic mail will be deemed an original, and binding upon the party who signed it.

[Signature Page Follows]

IN WITNESS WHEREOF, the Purchaser and the Shareholders' Agent have executed this Amendment on the date first above written.

Perion Network Ltd.

By: /s/ Josef Mandelbaum
Name: Josef Mandelbaum
Title: CEO

Shareholders' Agent

/s/ Nadav Goshen
Nadav Goshen

Exhibit 4.10

REGISTRATION RIGHTS AGREEMENT

REGISTRATION RIGHTS AGREEMENT (this "Agreement") dated as of November 30, 2012, by and among PERION NETWORK LTD., an Israeli company (the "Company") and the entities and individuals set forth on Schedule A attached hereto (referred to herein individually as an "Investor" and collectively as the "Investors").

RECITALS:

WHEREAS, on the date hereof, the Investors and the Company entered into a Share Purchase Agreement (the "Purchase Agreement") pursuant to which each of the Investors was issued by the Company ordinary shares, having a nominal value of NIS 0.01 per share (the "Ordinary Shares");

WHEREAS, the Company desires to grant the Investors certain registration rights with respect to the Ordinary Shares; and

WHEREAS, certain capitalized terms used herein are defined in Section 9 or elsewhere in this Agreement (capitalized terms used herein and not otherwise defined herein have the meanings ascribed to such terms in the Share Purchase Agreement).

NOW, THEREFORE, in consideration of the premises and mutual covenants herein contained, the parties hereto agree as follows:

1. Piggyback Registrations.

1.1 Right to Piggyback. Whenever the Company proposes to register (including, for this purpose, a registration effected by the Company for other shareholders) any of its securities under the Securities Act (other than pursuant to registration pursuant to a registration statement on Form F-4 or S-8 or any successor forms thereto), and the registration form to be used may be used for the registration of Registrable Securities (a "Piggyback Registration"), the Company will give prompt written notice to all record holders of Registrable Securities of its intention to effect such a registration and will, subject to the provisions of subsection 1.2, include in such registration all Registrable Securities with respect to which the Company has received written requests for inclusion therein within fifteen (15) days after the receipt of the Company's notice.

1.2 Priority on Primary Registrations. If a Piggyback Registration is an underwritten primary registration on behalf of the Company, the Company will include in such registration all Registrable Securities requested to be included in such registration; provided that if the managing underwriters advise the Company in writing that in their opinion the number of securities (including Registrable Securities) requested to be included in such registration exceeds the number which can be sold in such offering without adversely affecting the marketability of the offering, the Company will include in such registration (i) first, all the securities the Company proposes to sell, (ii) second, the Registrable Securities requested to be included in such registration, pro rata among the holders requesting such registration and the holders of such Registrable Securities on the basis of the number of shares of Registrable Securities owned by each holder of securities to be registered in such offering and (iii) third, other securities, if any, requested to be included in such registration; provided that in no event shall the number of Registrable Securities of each holder included in the registration be reduced below such number of shares that equals twice the percentage of the outstanding Ordinary Shares then held by such holder of Registrable Securities, unless waived by a majority of the holders of Registrable Securities to be included in such registration.

1 . 3 Priority on Secondary Registrations. If a Piggyback Registration is an underwritten secondary registration on behalf of holders of the Company's securities, and the managing underwriters advise the Company in writing that in their opinion the number of securities requested to be included in such registration exceeds the number which can be sold in such offering without adversely affecting the marketability of the offering, the Company will include in such registration (i) first, the securities requested to be included in such registration by the holders requesting such registration and the Registrable Securities requested to be included in such registration, pro rata among the holders requesting such registration and the holders of such Registrable Securities on the basis of the number of securities or Registrable Securities, as the case may be, owned by each holder of securities to be registered in such offering, and (ii) second, other securities, if any, requested to be included in such registration.

1.4 Terminated or Delayed Registrations. Notwithstanding the foregoing, if, at any time after giving a notice of a Piggyback Registration and prior to the effective date of the registration statement filed in connection with such registration, the Company shall determine for any reason not to register or to delay registration of such securities, the Company may, at its election, give written notice of such determination to each record holder of Registrable Securities and, following such notice, (i) in the case of a determination not to register, shall be relieved of its obligation to register any Registrable Securities in connection with such registration, and (ii) in the case of a determination to delay registering, shall be permitted to delay registering any Registrable Securities for the same period as the delay in registering such other securities.

2. Holdback Agreement.

2.1 Each holder of Registrable Securities agrees not to effect any public sale or distribution (including sales pursuant to Rule 144) of equity securities of the Company, or any securities convertible into or exchangeable or exercisable for such securities, during the seven (7) days prior to and the ninety (90) day period beginning on the effective date of any firm commitment underwritten registration (except as part of such underwritten registration), unless the underwriters managing the registered public offering otherwise agree and provided, however, that all officers and directors of the Company enter into similar agreements.

2.2 The Company agrees not to effect any public sale or distribution of its equity securities, or any securities convertible into or exchangeable or exercisable for such securities, during the seven (7) days prior to and during the ninety (90) day period beginning on the effective date of an underwritten Piggyback Registration (except as part of such underwritten registration or pursuant to registrations on Forms F-4 or S-8 or any successor forms thereto), unless the underwriters managing the registered public offering otherwise agree.

3. Registration Procedures. Whenever the holders of Registrable Securities have requested that any Registrable Securities be registered pursuant to this Agreement, the Company will use its commercially reasonable efforts to effect the registration and the sale of such Registrable Securities in accordance with the intended method of disposition thereof, and pursuant thereto the Company will as expeditiously as reasonably possible:

(a) prepare and file with the SEC a registration statement with respect to such Registrable Securities and use its commercially reasonable efforts to cause such registration statement to become effective under the Securities Act as soon as practicable after the filing thereof, subject to Section 1.4; provided that as far in advance as reasonably practicable before filing a registration statement or prospectus or any amendments or supplements thereto and in any event no less than five (5) days prior to the expected filing date, the Company will furnish to the counsel selected by the holders of a majority of the Registrable Securities covered by such registration statement copies of all such documents proposed to be filed, and shall give serious consideration to including in such documents such comments as such counsel may reasonably propose;

(b) prepare and file with the SEC such amendments, including post-effective amendments, and supplements to such registration statement and the prospectus used in connection therewith as may be necessary to keep such registration statement effective until completion of the distribution of the Registrable Securities registered thereunder but not more than one hundred eighty (180) days following effectiveness, and comply with the provisions of the Securities Act with respect to the disposition of all securities covered by such registration statement during such period in accordance with the intended methods of disposition by the sellers thereof set forth in such registration statement;

(c) furnish to each record holder of Registrable Securities covered by such Registration Statement such number of copies of such registration statement, each amendment and supplement thereto, the prospectus included in such registration statement (including each preliminary prospectus) and such other documents as such seller may reasonably request in order to facilitate the disposition of the Registrable Securities owned by such seller;

(d) use its commercially reasonable efforts to register or qualify such Registrable Securities under such other securities or blue sky laws of such jurisdictions as any seller reasonably requests, keep such registration or qualification (or exemption therefrom) effective until completion of the distribution of Registrable Securities but not more than one hundred eighty (180) days following effectiveness, and do any and all other acts and things which may be reasonably necessary or advisable to enable such seller to consummate the disposition in such jurisdictions of the Registrable Securities owned by such seller; provided that the Company will not be required to (i) qualify generally to do business in any jurisdiction where it would not otherwise be required to qualify but for this subsection, (ii) subject itself to taxation in any such jurisdiction or (iii) consent to general service of process (i.e., service of process which is not limited solely to securities law violations) in any such jurisdiction;

(e) notify each record holder of such Registrable Securities covered by a registration statement, at any time when a prospectus relating thereto is required to be delivered under the Securities Act, of the happening of any event as a result of which the prospectus included in such registration statement contains an untrue statement of a material fact or omits to state any material fact necessary to make the statements therein, in light of the circumstances under which they are made, not misleading, and, at the request of any such seller, the Company will promptly prepare a supplement or amendment to such prospectus so that, as thereafter delivered to the purchaser of such Registrable Securities, such prospectus will not contain an untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; provided that each holder of Registrable Securities agrees by acquisition of such Registrable Securities that upon receipt of any notice from the Company of the happening of any event of the kind described in subsection (e)3(e), such holder will immediately discontinue such holder's disposition of Registrable Securities pursuant to the registration statement relating to such Registrable Securities until such holder's receipt of the copies of the supplemented or amended prospectus contemplated by subsection 3(e) and, if so directed by the Company, will deliver to the Company all copies then in such holder's possession of the prospectus relating to such Registrable Securities current to the time of receipt of such notice;

(f) notify each record holder of such Registrable Securities covered by a registration statement, at any time (i)(A) when a registration statement or prospectus or any amendments or supplements thereto is proposed to be filed; (B) when the SEC notifies the Company whether there will be a "review" of such Registration Statement and whenever the SEC comments in writing on such registration statement (the Company shall as promptly as possible provide true and complete copies thereof and all written responses thereto to each of such holders of Registrable Securities that pertain to the holders of Registrable Securities as selling stockholders or to the plan of distribution, but not information which the Company believes would constitute material and non-public information); and (C) with respect to the registration statement or any post-effective amendment, when the same has become effective; (ii) of any request by the SEC or any other federal or state governmental authority for amendments or supplements to the registration statement or prospectus or for additional information; (iii) of the issuance by the SEC of any stop order suspending the effectiveness of the registration statement covering any or all of the Registrable Securities or the initiation of any proceedings for that purpose; (iv) of the receipt by the Company of any notification with respect to the suspension of the qualification or exemption from qualification of any of the Registrable Securities for sale in any jurisdiction, or the initiation or threatening of any proceeding for such purpose; and (v) of the occurrence of any event or passage of time that makes the financial statements included in the registration statement ineligible for inclusion therein;

(g) use its commercially reasonable efforts to cause the Ordinary Shares to be listed on the Nasdaq Stock Market ("Nasdaq Market") or, failing that, to use its commercially reasonable efforts to arrange for at least two market makers to register as such with respect to the Ordinary Shares with the OTCQB or OTCBB;

(h) provide a transfer agent and registrar for all such Registrable Securities not later than the effective date of such registration statement;

(i) enter into such customary agreements (including underwriting agreements in customary form, if applicable) and take all such other actions as the holders of a majority of the Registrable Securities subject to such registration statement or the underwriters, if any, reasonably request in order to expedite or facilitate the disposition of such Registrable Securities;

(j) otherwise use its commercially reasonable efforts to comply with all applicable rules and regulations of the SEC, and make available to its security holders, as soon as reasonably practicable, an earnings statement covering the period of at least twelve (12) months beginning with the first day of the Company's first full calendar quarter after the effective date of the registration statement, which earnings statement shall satisfy the provisions of Section 11(a) of the Securities Act and Rule 158 thereunder;

(k) in the event of the issuance of any stop order suspending the effectiveness of a registration statement, or of any order suspending or preventing the use of any related prospectus or suspending the qualification of any common equity included in such registration statement for sale in any jurisdiction, the Company will promptly notify the holders of Registrable Securities, and such holder will not make any offers and sales pursuant to such registration statement unless and until the Company notifies them of the withdrawal of such order; and

(l) to the extent requested by the underwriters, if any, obtain a cold comfort letter from the Company's independent public accountants in customary form and covering such matters of the type customarily covered by cold comfort letters.

4. Registration Expenses.

4.1 All expenses incident to the Company's performance of or compliance with this Agreement, including without limitation all registration and filing fees, fees and expenses of compliance with securities or blue sky laws, printing expenses, messenger and delivery expenses, and fees and disbursements of counsel for the Company and all of its independent certified public accountants, underwriters (excluding discounts and commissions) and other Persons retained by the Company will be borne by the Company, whether or not any Registrable Securities are sold pursuant to a registration statement, including the Company's internal expenses (including, without limitation, all salaries and expenses of its officers and employees performing legal or accounting duties), the expense of any annual audit or quarterly review, the expense of any liability insurance and the expenses and fees for listing the securities to be registered on each securities exchange on which securities of the same class as the Registrable Securities issued by the Company are then listed.

4.2 In connection with each Piggyback Registration, the Company will reimburse the holders of Registrable Securities covered by such registration for the reasonable fees and expenses (including the reasonable fees and expenses of one counsel chosen by the holders of a majority of the Registrable Securities initially requesting such registration) incurred by such holders in connection with such registration, up to an aggregate of $5,000 per Piggyback Registration. The Company shall not be required to pay an underwriting discount with respect to any shares being sold by any party other than the Company in connection with an underwritten public offering of any of the Company's securities pursuant to this Agreement, nor shall the Company be required to pay any transfer or similar tax in respect of Registrable Securities.

5. Indemnification.

5.1 The Company agrees to indemnify, to the full extent permitted by law, each holder of Registrable Securities included in any registration statement filed hereunder, each underwriter, and their respective members, managers, officers and directors and each Person who "controls" such holder and underwriter (within the meaning of the Securities Act) against all losses, claims, damages, liabilities and expenses arising out of, based upon or relating to any untrue or alleged untrue statement of material fact contained in any such registration statement, prospectus or preliminary prospectus or any amendment thereof or supplement thereto or any omission or alleged omission of a material fact required to be stated therein or necessary to make the statements therein (in the case of a prospectus, in light of the circumstances under which they were made) not misleading, and shall reimburse such holder, underwriter, director, officer or controlling person for any legal or other expenses reasonably incurred by such holder, underwriter, officer, director or controlling person in connection with the investigation or defense of such loss, claim, damage, liability or expense, except to the extent, but only to the extent, that such untrue statements or omissions are caused by or contained in any information furnished in writing to the Company by any holder expressly for use therein.

5.2 In connection with any registration statement in which a holder of Registrable Securities is participating, each such holder will furnish to the Company in writing such information and affidavits as the Company reasonably requests for use in connection with any such registration statement or prospectus and, severally but not jointly, agrees to indemnify the Company, each underwriter, and their respective, directors and officers and each Person who "controls" the Company and each underwriter (within the meaning of the Securities Act) against any losses, claims, damages, liabilities and expenses resulting from any untrue or alleged untrue statement of material fact contained in the registration statement, prospectus or preliminary prospectus or any amendment thereof or supplement thereto or any omission or alleged omission of a material fact required to be stated therein or necessary to make the statements therein (in the case of a prospectus, in light of the circumstances under which there were made) not misleading, but only to the extent that such untrue statement or omission is contained in any information or affidavit so furnished in writing by such holder to the Company specifically for inclusion in such registration statement or prospectus; provided that the obligation to indemnify will be individual to each holder and will be limited to the net amount of proceeds received by such holder from the sale of Registrable Securities pursuant to such registration statement. Any Person entitled to indemnification hereunder ("Indemnified Party") will (i) give prompt written notice to the Person from whom indemnity is sought ("Indemnifying Party") of any claim with respect to which it seeks indemnification and (ii) unless in such Indemnified Party's reasonable judgment a conflict of interest between such Indemnified and Indemnifying Parties may exist with respect to such claim, permit such Indemnifying Party to assume the defense of such claim with counsel reasonably satisfactory to the Indemnified Party; provided, that the failure of any Indemnified Party to give such notice shall not relieve the Indemnifying Party of its obligations or liabilities pursuant to this Agreement, except (and only) to the extent that such failure shall have proximately and materially adversely prejudiced the Indemnifying Party. In addition, an Indemnified Party shall have the right to employ separate counsel in any such proceeding and to participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such Indemnified Party or Parties unless: (1) the Indemnifying Party has agreed in writing to pay such fees and expenses; (2) the Indemnifying Party shall have failed promptly to assume the defense of such proceeding and to employ counsel reasonably satisfactory to such Indemnified Party in any such proceeding or (3) the named parties in any proceeding (including any impleaded parties) include both such Indemnified Party and the Indemnifying Party, and such Indemnified Party shall have been advised by counsel that conflict of interest is likely to exist if the same counsel were to represent such Indemnifying Party and the Indemnified Party. If such defense is assumed, the Indemnifying Party will not be subject to any liability for any settlement made by the Indemnified Party without its consent (but such consent will not be unreasonably withheld). An Indemnifying Party who is not entitled to, or elects not to, assume the defense of a claim will not be obligated to pay the fees and expenses of more than one counsel for all Indemnified Parties with respect to such claim, unless in the reasonable judgment of any Indemnified Party, on the advice of counsel, a conflict of interest may exist between such Indemnified Party and any other of such Indemnified Parties with respect to such claim.

5.3 All fees and expenses of the Indemnified Party (including reasonable fees and expenses to the extent incurred in connection with investigating or preparing to defend such proceeding in a manner not inconsistent with this Section) shall be paid to the Indemnified Party, as incurred, within thirty (30) trading days of written notice thereof to the Indemnifying Party (regardless of whether it is ultimately determined that an Indemnified Party is not entitled to indemnification hereunder; provided, that the Indemnifying Party may require such Indemnified Party to undertake to reimburse all such fees and expenses to the extent it is finally judicially determined that such Indemnified Party is not entitled to indemnification hereunder).

5.4 The indemnification provided for under this Agreement will remain in full force and effect regardless of any investigation made by or on behalf of the Indemnified Party or any officer, director or controlling Person of such Indemnified Party. In addition, the indemnification will survive the completion of any offering of Registrable Securities pursuant to this Agreement and will survive the termination of this Agreement. Each party also agrees to make such provisions, as are reasonably requested by any Indemnified Party, for contribution to such other party in the event the first party's indemnification is unavailable for any reason in such proportion as is appropriate to reflect the relative fault of the Indemnifying Party and Indemnified Party in connection with the actions, statements or omissions that resulted in such losses as well as any other relevant equitable considerations. The amount paid or payable by a party as a result of any losses shall be deemed to include any reasonable attorneys' or other reasonable fees or expenses incurred by such party in connection with any proceeding to the extent such party would have been indemnified for such fees or expenses if the indemnification provided for in this Section were available to such party in accordance with its terms. The relative fault of such Indemnifying Party and Indemnified Party shall be determined by reference to, among other things, whether any action in question, including any untrue or alleged untrue statement of a material fact or omission or alleged omission of a material fact relates to information supplied by the Indemnifying Party or the Indemnified Party and the parties' relative intent, knowledge, access to information, and opportunity to correct or prevent such statement or omission. Notwithstanding the provisions of this Section, no holder of Registrable Securities shall be required to contribute, in the aggregate, any amount in excess of the amount by which the proceeds actually received by such holder of Registrable Securities from the sale of the Registrable Securities subject to the proceeding exceeds the amount of any damages that such holder of Registrable Securities has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. The indemnity and contribution agreements contained in this Section are in addition to any liability that the Indemnifying Parties may have to the Indemnified Parties. The indemnification and contribution provisions of this Agreement may be superseded by the comparable provisions of a customary underwriting agreement entered into with an underwriter selected in accordance with the provisions of this Agreement.

6 . Participation in Underwritten Registration. No Person may participate in any registration hereunder which is underwritten unless such Person (a) agrees to sell such Person's securities on the basis provided in any underwriting arrangements approved by the Company and (b) completes and executes all customary questionnaires, powers of attorney, indemnities, underwriting agreements and other documents required under the terms of such underwriting arrangements; provided that no holder of Registrable Securities included in any underwritten registration shall be required to make any representations or warranties to the Company or the underwriters other than representations and warranties regarding such holder, its ownership of the securities being registered on its behalf and such holder's intended method of distribution.

7 . Rule 144 Reporting. With a view to making available to the holders of Registrable Securities the benefits of certain rules and regulations of the SEC which may permit the sale of the Registrable Securities to the public without registration, the Company agrees to use its commercially reasonable efforts to:

7.1 make and keep current public information available, within the meaning of Rule 144 or any similar or analogous rule promulgated under the Securities Act; and

7.2 so long as any party hereto owns any Registrable Securities, furnish to such Person forthwith upon request, a written statement by the Company as to its compliance with the reporting requirements of Rule 144, the Securities Exchange Act of 1934, as amended; a copy of the most recent annual or quarterly report of the Company; and such other reports and documents as such Person may reasonably request in availing itself of any rule or regulation of the SEC allowing it to sell any such securities without registration.

8. Termination. This Agreement shall terminate and be of no further force and effect on the third anniversary of the date hereof.

9. Definitions.

"Ordinary Shares" means (i) the ordinary share, nominal value NIS 0.01 per share, of the Company and (ii) any share capital of the Company issued or issuable with respect to the securities referred to in clause (i) by way of stock dividend or stock split or in connection with a combination of shares, recapitalization, merger, consolidation or other reorganization.

"Person" means any individual, partnership, joint venture, corporation, limited liability company, trust, joint stock company, unincorporated organization or governmental entity, or any department, agency or political subdivision thereof.

"Registrable Securities" means (i) any Ordinary Shares issued or issuable to any Investor pursuant to the Purchase Agreement and (ii) any shares of the Company issued or issuable with respect to the securities referred to in clause (i) by way of a stock dividend or stock split or in connection with a combination of shares, recapitalization, merger, consolidation or other reorganization. As to any particular Registrable Securities, such securities will cease to be Registrable Securities when they have been distributed to the public pursuant to an offering registered under the Securities Act or sold to the public through a broker, dealer or market maker in compliance with Rule 144 (or any similar rule then in force) or when all of the Registrable Securities held by a Person could be freely sold pursuant to Rule 144 without any volume restrictions, as determined by the Company. For purposes of this Agreement, a Person will be deemed to be a holder of Registrable Securities whenever such Person has the right to acquire directly or indirectly such Registrable Securities (upon conversion or exercise in connection with a transfer of securities or otherwise, but disregarding any restrictions or limitations upon the exercise of such right), whether or not such acquisition has actually been effected.

"Rule 144" means Rule 144 promulgated under the Securities Act (or any similar rule then in force).

"SEC" means the Securities and Exchange Commission, or any successor organization thereto performing similar regulatory functions.

10. Miscellaneous.

10.1 No Inconsistent Agreements. The Company will not hereafter enter into any agreement with respect to its securities which is inconsistent with or violates the rights granted to the holders of Registrable Securities in this Agreement.

10.2 Adjustments Affecting Registrable Securities. The Company will not take any action, or permit any change to occur, with respect to its securities which would materially adversely affect the ability of the holders of Registrable Securities to include such Registrable Securities in a registration undertaken pursuant to this Agreement or which would materially adversely affect the marketability of such Registrable Securities in any such registration.

10.3 Remedies. Any Person having rights under any provision of this Agreement will be entitled to enforce such rights specifically to recover damages caused by reason of any breach of any provision of this Agreement and to exercise all other rights granted by law. The parties hereto agree and acknowledge that money damages may not be an adequate remedy for any breach of the provisions of this Agreement and that any party may in its sole discretion apply to any court of law or equity of competent jurisdiction (without posting any bond or other security) for specific performance and for other injunctive relief in order to enforce or prevent violation of the provisions of this Agreement.

10.4 Amendments and Waivers. Except as otherwise provided herein, the provisions of this Agreement may be amended or waived only upon the prior written consent of the Company and each of the Investors.

10.5 Successors and Assigns. All covenants and agreements in this Agreement by or on behalf of any of the parties hereto will bind and inure to the benefit of the permitted respective successors and assigns of the parties hereto whether so expressed or not. All covenants and agreements in this Agreement by or on behalf of any of the parties hereto will bind and inure to the benefit of the respective successors and assigns of the parties hereto whether so expressed or not. The right to cause the Company to register Registrable Securities pursuant to this Agreement may be assigned (but only with all related obligations) by a holder of Registrable Securities to a Permitted Transferee of such securities constituting at such time at least 0.5% of the outstanding Ordinary Shares; provided (i) the Company is, within a reasonable time after such transfer, furnished with written notice of the name and address of such transferee and the securities with respect to which such registration rights are being assigned, and (ii) such transferee agrees in writing to be bound by and subject to the terms and conditions of this Agreement. For the purpose of this Section, the term "Permitted Transferee" mean: (A) with respect to an Investors who is a natural person: (i) a spouse or child of the transferor; or (ii) a company wholly owned by such individual, (iii) such individual's beneficiary (in the event the individual holds the shares as a trustee), or such individual's trustee (including the trustee of a voting trust) and the beneficiary of such a trustee, and (B) with respect to an Investor that is a legal entity and whose shares were not transferred to it as to a Permitted Transferee under (A) above: (i) any affiliate of such entity; or (ii) any successor of such entity by merger or consolidation, or any person to which, at the same time, substantially all the business and assets of such entity are being sold.

10.6 Notices. Except as otherwise expressly provided herein, any and all notices, designations, consents, offers, acceptances or other communications provided for herein shall be given in writing and shall be mailed by first class registered or certified mail, postage prepaid, sent by a nationally recognized overnight courier service or transmitted via telecopier as follows:

(a) If to the Company:

Perion Network Ltd.
4 Ha'Nechoset Street
Tel Aviv 69710, Israel
Attention: General Counsel
Facsimile No.: +972-3-644-5502

with copies (which copies shall not constitute notice to the Company) to:
Goldfarb Seligman & Co.
Electra Tower
98 Yigal Alon Street
Tel-Aviv 67891, Israel
Attention: Adam M. Klein, Adv.
Facsimile No.: +972 (3) 521- 2212

(b) If to the Investor(s):

See addresses as set forth on Schedule A.

Notice shall be deemed given, for all purposes, when deposited in the United States or Israeli mail as registered or certified mail, in which event the tenth day following the date of postmark or the receipt of such registered or certified mail shall conclusively be deemed the date of giving of such notice, on the third business day following collection by an internationally recognized overnight courier service or when acknowledged by the receiving telecopier.

10.7 Interpretation of Agreement; Severability. The provisions of this Agreement shall be applied and interpreted in a manner consistent with each other so as to carry out the purposes and intent of the parties hereto, but if for any reason any provision hereof is determined to be unenforceable or invalid, such provision or such part thereof as may be unenforceable or invalid shall be deemed severed from the Agreement and the remaining provisions carried out with the same force and effect as if the severed provision or part thereof had not been a part of this Agreement.

10.8 Governing Law; Venue. This Agreement shall be governed by, and construed in accordance with the internal laws of the State of Israel, without regard to conflict of law principles that would result in the application of any law other than the law of the State of Israel. The parties agree that venue for any dispute arising under this Agreement will lie exclusively in courts located in Tel Aviv, and the parties irrevocably waive any right to raise *forum non conveniens* or any other argument that the courts of Tel Aviv are not the proper venue or that any other court has jurisdiction over any dispute arising under this Agreement.

10.9 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original, but all of which taken together shall constitute one and the same Agreement.

10.10 Entire Agreement. This Agreement constitutes the entire agreement of the parties with respect to the subject matter hereof, and supersedes all previous agreements.

10.11 Computation of Time. Whenever the last day for the exercise of any privilege or the discharge of any duty hereunder shall fall upon a Friday, Saturday, or any date on which banks in Israel, are authorized to be closed, the party having such privilege or duty may exercise such privilege or discharge such duty on the next succeeding day which is a regular business day.

[Signature page follows]

IN WITNESS WHEREOF, the parties hereto have duly executed and delivered this Agreement as of the date first written above.

COMPANY:

Perion Network Ltd.

/s/ Josef Mandelbaum	/s/ Yacov Kaufman
Name: Josef Mandelbaum	Yacov Kaufman
Title: CEO	CFO

[Signature page to Registration Rights Agreement]

IN WITNESS WHEREOF, the parties hereto have duly executed and delivered this Agreement as of the date first written above.

INVESTORS:

/s/ Moshe Cohen
Moshe Cohen

/s/ Ben Garrun
Ben Garrun

HOLINE FINANCE LTD.

By: /s/ Kees-Jan Avis
Name: Kees-Jan Avis
Title: Director

/s/ Robert Sherman
Robert Sherman

[Signature page to Registration Rights Agreement]

Exhibit 8

List of all subsidiaries

1. IncrediMail Inc., a Delaware corporation
2. Perion Interactive Ltd., an Israeli corporation (under voluntary liquidation)
3. Smilebox Inc., a Washington corporation
4. SweetIM Ltd., a Belize company
5. SweetIM Technologies Ltd., an Israeli company

EXHIBIT 12.1

CERTIFICATIONS

I, Josef Mandelbaum, Chief Executive Officer of Perion Network Ltd., 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: April 29, 2013

/s/ Josef Mandelbaum
Josef Mandelbaum,
Chief Executive Officer

EXHIBIT 12.2

CERTIFICATIONS

I, Yacov Kaufman, Chief Financial Officer of Perion Network Ltd., 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: April 29, 2013

/s/ Yacov Kaufman
Yacov Kaufman,
Chief Financial Officer

EXHIBIT 13.1

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, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Josef Mandelbaum, 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.

/s/ Josef Mandelbaum
Josef Mandelbaum
Chief Executive Officer

Date: April 29, 2013

EXHIBIT 13.2

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, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Yacov Kaufman, 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.

/s/ Yacov Kaufman
Yacov Kaufman
Chief Financial Officer

Date: April 29, 2013

Exhibit 15.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements on Form S-8 (File Nos. 333-171781, 333-152010, 333-133968), of our report dated April 29, 2013, with respect to the consolidated financial statements of the Company and its subsidiaries, which appears in this Annual Report on Form 20-F for the year ended December 31, 2012.

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

Tel Aviv, Israel
April 29, 2013