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, 2018

OR

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

OR

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

Date of event requiring this shell company report________________________

For the transition period from ____ to _____

Commission File No. 000-51694

Perion Network Ltd.

(Exact Name of Registrant as specified in its charter)

N/A
(Translation of Registrant's name into English)

Israel
(Jurisdiction of incorporation or organization)

26 HaRokmim Street
Holon, Israel 5885849
(Address of principal executive offices)

Maoz Sigron, Chief Financial Officer
Tel: +972-73-3981582; Fax: +972-3-644-5502
26 HaRokmim Street
Holon, Israel 5885849
(Name, Telephone, E-mail and /or Facsimile Number and Address of Company Contact Person)

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

Title of Each Class	Name of Each Exchange on which Registered
Ordinary shares, par value NIS 0.03 per share	**Nasdaq Global Select Market**

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

None
(Title of Class)

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

None
(Title of Class)

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

As of December 31, 2018, the Registrant had outstanding 25,850,188 ordinary shares, par value NIS 0.03 per share (excluding treasury shares).

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

Yes ☐ No ☒

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

Yes ☐ No ☒

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

Yes ☒ No ☐

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

Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See definition of "large accelerated filer, "accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act

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

Emerging growth company ☐

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

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

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

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

Item 17 ☐ Item 18 ☐

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

Yes ☐ No ☒

PRELIMINARY NOTES

Terms

As used herein, and unless the context suggest otherwise, the terms "Perion," "Company," "we," "us" or "ours" refer to Perion Network Ltd. and subsidiaries. References to "dollar" and "$" are to U.S. dollars, the lawful currency of the United States, and references to "NIS" are to New Israeli Shekels, the lawful currency of the State of Israel. This annual report contains translations of certain NIS amounts into U.S. dollars at specified rates solely for your convenience. These translations should not be construed as representations by us that the NIS amounts actually represent such U.S. dollar amounts or could, at this time, be converted into U.S. dollars at the rate indicated. Unless otherwise indicated, we have translated NIS amounts into U.S. dollars at an exchange rate of NIS 3.748 to $1.00, the representative exchange rate reported by the Bank of Israel on December 31, 2018.

Changes in Share Capital

On August 26, 2018, following the approval of a special general meeting of our shareholder held on August 2, 2018, the Company executed a 3-to-1 reverse share split of the Company's ordinary shares, such that each three ordinary shares, par value NIS 0.01 per share, have been consolidated into one ordinary share, par value NIS 0.03. Unless otherwise indicated, all of the share numbers and the option numbers in this Form 20-F have been adjusted, on a retroactive basis, to reflect this 3-to-1 reverse share split.

Forward-Looking Statements

This annual report on Form 20-F contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Forward-looking statements relate to future events or our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our, or our industries' actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed, implied or inferred by these forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "could," "would," "expects," "plans," "intends," "anticipates," "believes," "estimates," "predicts," "projects," "potential" or "continue" or the negative of such terms and other comparable terminology.

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

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

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

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

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. SELECTED FINANCIAL DATA

We derived the selected operations data below for the years ended December 31, 2016, 2017 and 2018 and the selected balance sheet data as of December 31, 2017 and 2018 from our audited consolidated financial statements and the related notes to the financial statements included elsewhere herein (the "Financial Statements"). We derived the selected operations data below for the years ended December 31, 2014 and 2015 and the selected balance sheet data as of December 31, 2014, 2015 and 2016 from our audited consolidated financial statements not incorporated by reference in this report. Our consolidated financial statements are prepared and presented in U.S. dollars and in accordance with U.S. Generally Accepted Accounting Principles ("U.S. GAAP"). The following tables present selected financial data and should be read in conjunction with "Item 5 – Operating and Financial Review and Prospects" and our Financial Statements.

	Year ended December 31, (U.S. dollars in thousands, except share and per share data)				
	2014	2015	2016	2017	2018
Revenues:					
Advertising	$ 45,076	$ 32,053	$ 140,111	$ 134,481	$ 125,977
Search and other	343,655	188,897	172,683	139,505	126,868
Total Revenues	388,731	220,950	312,794	273,986	252,845
Costs and Expenses:					
Cost of revenues	10,950	7,877	25,924	24,659	23,757
Customer acquisition costs and media buy	174,575	91,194	140,210	130,885	128,351
Research and development	37,427	21,692	25,221	17,189	18,884
Selling and marketing	20,792	22,886	54,559	52,742	38,918
General and administrative	36,730	31,064	28,827	21,911	16,450
Restructuring charges	3,981	1,052	728	-	2,075
Impairment, net of gain on reversal of contingent consideration	19,941	72,785	-	85,667	-
Depreciation and amortization	21,321	11,422	25,977	16,591	9,719
Total Costs and Expenses	325,717	259,972	301,446	349,644	238,154
Income (Loss) from Operations	63,014	(39,022)	11,348	(75,658)	14,691
Financial expense, net	2,888	1,939	8,288	5,922	3,794
Income (Loss) before Taxes on Income	60,126	(40,961)	3,060	(81,850)	10,897
Taxes on income	10,816	697	212	(8,826)	2,776
Net Income (Loss) from Continuing Operations	49,310	(41,658)	2,848	(72,754)	8,121
Net loss from discontinued operations	6,484	26,999	2,647	-	-
Net Income (Loss)	$ 42,826	$ (68,657)	$ 201	$ (72,754)	$ 8,121
Net Earnings (Loss) per Share - Basic:					
Continuing operations	$ 2.17	$ (1.74)	$ 0.11	$ (2.81)	$ 0.31
Discontinued operations	$ (0.29)	$ (1.14)	$ (0.10)	$ -	-
Net Income (Loss)	$ 1.88	$ (2.88)	$ 0.01	$ (2.81)	$ 0.31
Net Earnings (Loss) per Share – Diluted:					
Continuing operations	$ 2.11	$ (1.74)	$ 0.11	$ (2.81)	$ 0.31
Discontinued operations	$ (0.28)	$ (1.14)	$ (0.10)	$ -	-
Net Income (Loss)	$ 1.83	$ (2.88)	$ 0.01	$ (2.81)	$ 0.31
Number of shares continuing and discontinued:					
Basic	22,737,736	23,766,811	25,520,151	25,849,724	25,850,067
Diluted	23,442,470	23,766,811	25,557,934	25,849,724	25,855,225

Balance Sheet Data (U.S. dollars in thousands):	As of December 31,				
	2014	2015	2016	2017	2018
Cash and cash equivalents	$ 101,183	$ 17,519	$ 23,962	$ 31,567	$ 39,109
Working capital	$ 91,255	$ 37,394	$ 27,048	$ 32,895	$ 26,779
Total assets	$ 356,139	$ 442,298	$ 368,452	$ 274,027	$ 256,446
Total liabilities	$ 110,142	$ 242,461	$ 160,308	$ 135,695	$ 107,665
Shareholders’ equity	$ 245,997	$ 199,837	$ 208,144	$ 138,332	$ 148,781

B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

C. REASONS FOR OFFER AND USE OF PROCEEDS

Not applicable.

D. RISK FACTORS

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

Risks Related to our Business and Industry

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

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

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

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

Google is a substantial player in the digital advertising market along with other players such as Microsoft. In addition, a small number of social network companies, such as Facebook, account for a large portion of digital advertising budgets. The high concentration of power among Google, Facebook and some other large market participants causes us to be subject to any unilateral changes they may make with respect to advertising on their respective platforms, which may be more lucrative than alternative methods of advertising or partnerships with other publishers that are not subject to such changes. Furthermore, we could have limited ability to respond to, and adjust for, changes implemented by large market participants.

These companies, along with other large and established Internet and technology companies, may also leverage their power to make changes to their web browsers, operating systems, platforms, networks or other products or services in a way that impacts the entire digital advertising marketplace.

As of February 2018, the Google Chrome internet browser supports the “Better Ads Standards” implemented by the Coalition for Better Ads, an industry body formed by leading international trade associations and companies involved in online media (in which Undertone is also a member), and remove all ads from certain sites that violate this standard. This, together with other advertisement-blocking technologies incorporated in or compatible with leading internet browsers, could impact on Undertone’s ad units (as well as those of Undertone’s competitors). These changes could materially impact the way we do business, and if we or our advertising partners are unable to quickly and effectively adjust to those changes, there could be an adverse effect on our revenues and performance.

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

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

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

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

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

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

A substantial portion of our revenues is derived from the sale of our digital advertising solutions and we have made significant investments in our ability to deliver high impact advertising which is compatible on multiple devices and channels. Nonetheless, if customers do not embrace our solutions, we could suffer an adverse effect on our revenues. In addition, if there is a reduction in general demand for digital advertising, in spend for certain channels or solutions, or if the demand for our specific solutions and offerings is decreased, our revenues could decline or otherwise our business may be adversely affected.

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

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

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

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

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

- Supply sources may impose significant restrictions on the advertising inventory they sell, or may impose other unfavorable terms and conditions on the advertisers using their sites or platforms. For example, these restrictions may include frequency caps, prohibitions on advertisements from specific advertisers or specific industries, or restrictions on the use of specified creative content or advertising formats, which would restrain our supply of available inventory.

- Supply sources that offer online content and mobile applications may shift from an advertising-based monetization method to a pay for content/services model, thereby reducing available inventory.

- Social media platforms may be successful in keeping users within their sites via products such as Facebook's Instant Articles. If, as a result, users are not on the open web, advertising inventory on the open web (including our publisher's sites) may be reduced or may become less attractive to our advertising customers.

- Supply sources may be reluctant or unable to adopt certain of our proprietary and unique high-impact ad formats for a variety of reasons (such as user preference changes making such ad formats less desirable, or technological limitations, such as connection with header bidding or the ability to transact programmatically) resulting in limited advertising inventory supply for such formats and inhibiting our ability to scale such formats.

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

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

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

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

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

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

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

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

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

- Historically, in most cases our advertising solution experienced the lowest sales in the first quarter and the highest sales in the fourth quarter, with the second and third quarters being slightly stronger than the first quarter. Fourth quarter sales tend to be the highest due to a need to utilize remaining budgets, and increased customer advertising volumes during the holiday selling season.

- Product and service revenues are influenced by political advertising, which generally occurs every two years.

- In any single period, product and service revenues and delivery costs are subject to significant variation based on changes in the volume and mix of deliveries performed during such period.

- Revenues are subject to the changes of brand marketing trends, including when and where brands choose to spend their money in a given year.

- Advertising customers generally retain the right to supplement, extend, or cancel existing advertising orders at any time prior to their completion, and we have no control over the timing or magnitude of these revenue changes.

- Relative complexity of individual advertising formats, and the length of the creative design process.

As a result, our profit from these operations is seasonal, with the fourth quarter being the major contributor to our profits and the first quarter possibly resulting in a loss. Moreover, due to the long receivable cycle and shorter payable cycle, this seasonality puts strains on our cash flow through the first and second quarter of every year.

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

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

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

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

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

In most cases, when we deliver an advertisement, we are often able to collect certain information about the content and placement of the ad, the relevancy of such ad to a user and the interaction of the user with the ad, such as whether the user viewed or clicked on the ad or watched a video. As we collect and aggregate data provided by billions of ad impressions and third-party providers, we analyze the data in order to measure and optimize the placement and delivery of our advertising inventory and provide cross-channel advertising capabilities. Our ability to access and utilize such data is crucial.

Our publishers or advertisers might decide not to allow us to collect some or all of this data or might limit our use of this data. Our ability to either collect or use data could be restricted by new laws or regulations, including, the General Data Protection Regulation in the European Union which entered into effect in May 2018, and presumably broaden the definition of personal data to include location data and online identifiers, which are commonly used and collected parameters in digital advertising, and impose more stringent user consent requirements, changes in technology, operating system restrictions, requests to discontinue using certain data, restrictions imposed by advertisers and publishers, industry standards or consumer choice. In addition, the California Consumer Privacy Act (2018) will become effective on January 1, 2020 and may also affect us Interruptions, failures or defects in our data collection, analysis and storage systems could also limit our ability to aggregate and analyze data from our advertisers' advertising campaigns.

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

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

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

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

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

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

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

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

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

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

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

When working with agencies to deliver campaigns on behalf of their brand customers, we generally bill the agency for our products and services, and in most cases, the brand has no direct contractual commitment to us to make any payments. Furthermore, some agencies contractually limit their payment obligations to us through sequential liability provisions, whereby the agency is liable for payment if, and only to the extent, that the agency collects a corresponding payment from the brand on whose behalf our services were rendered. These circumstances may result in longer collections periods, increased costs associated with pursuing brands directly for payments, or our inability to collect payments. In summary, if we are unsuccessful in establishing or maintaining our relationships with these agencies on commercially reasonable terms or if the agencies are unable to effectively collect corresponding payments from the brands, our ability to compete in the marketplace or to grow our revenues could be impaired and our operating results would suffer.

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

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

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

We are highly dependent on our search services agreement with Microsoft Irelands Operations Limited, which covers substantially all of our search solution. Our previous agreement with Microsoft Online Inc. had a term from January 1, 2015 until December 31, 2017 (the "Microsoft Agreement"). In October 2017, we entered into an agreement with Microsoft Ireland Operations Limited effective as of January 1, 2018 until December 31, 2020 (the "Renewed Microsoft Agreement"). In 2018, the Microsoft Agreement accounted for 45% of our revenues. In this annual report on Form 20-F we refer to Microsoft Corporation and its affiliates as Microsoft.

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

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

In 2018, the top five publishers distributing our search services accounted for approximately 36% of our revenues. There can be no assurance that these existing publishers will continue to distribute our search services or continue utilizing the revenue-generating monetization services at the levels they did in the past or at all. The loss of a substantial portion of our relationships with these publishers, or a substantial reduction in their level of activity, could cause a material decline in our revenues and profitability.

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

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

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

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

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

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

- recruiting and retaining highly qualified employees for our current business and new businesses we are developing; and
- attracting and acquiring new publishers to support and expand our business.

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

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

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

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

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

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

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

As we provide our services through the Internet, we are reliant on our ability to work with the different Internet browsers. The Internet browser market is extremely concentrated with Google's Chrome, Microsoft's Internet Explorer, Microsoft Edge and Mozilla's Firefox, accounting for over 90% of the desktop browser market in the aggregate in 2018, and Google's Chrome alone accounting for over 68%, based on StatCounter reports. In the past years, Internet browser providers such as Google and Microsoft made changes and updated their policies and technology in general, and specifically those relating to change of search settings. Each such change limits and constrains our ability to offer or change search properties. In addition, the desktop operating system market is very concentrated as well, with Microsoft Windows dominating over 80% of the market in 2018, and Apple operating systems accounting for 13% of that market, based on StatCounter reports. In addition, during 2015, Microsoft announced changes to its browser modifier detection criteria and issued a new operating system (Windows 10), which included a new default Internet browser (Edge). In addition, in June 2018 Google limited the ability to install Chrome browser extensions only from within the Chrome Web Store. Some of these changes limited our ability to maintain our users' browser settings. If Microsoft, Google, Apple or other companies that provide Internet browsers, operating systems or other underlying platforms, effectively further restrict, discourage or otherwise hamper companies, like us, from offering or changing search services, this would continue to cause a material adverse effect on our revenue and our financial results.

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

The market related to desktop computers has accounted for substantial part of our search revenues. While the desktop usage remains stable, in recent years, there has been a trend towards shifting Internet usage from desktop computers to mobile devices such as mobile phones, tablets, etc. If this trend towards using the Internet on non-desktop devices accelerates and desktop usage will decline, our search offerings will become less relevant and may fail to attract publishers and web traffic. In addition, even if consumers do use our services, our revenue growth will still be adversely affected if we do not rapidly and successfully implement adequate revenue-generating models for mobile platforms to respond such decline in desktop.

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

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

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

Risks related to our Financial and Corporate Structure

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

As of December 31, 2018, we had convertible bonds outstanding having an aggregate principal amount of approximately NIS 57.4 million (then equivalent to approximately $15.3 million). In the event that we fail to comply with the terms or covenants of our convertible bonds and cannot obtain a waiver of noncompliance, we may face certain deteriorations in the terms of the convertible bonds, including, changes in the interest rate or be required to immediately repay all of our outstanding indebtedness and the bond trustee may be entitled to exercise the remedies available under the applicable agreement and applicable law.

In addition, in December 2018, ClientConnect Ltd. entered into a new loan facility with Mizrahi Tefahot Bank Ltd., an Israeli bank, in the amount of $25 million which includes certain financial covenants. For further information, see “Item 5. Operating and Financial Review and Prospects - Liquidity and Capital Resources - Credit facilities”.

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

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

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

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

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

We depend on the capabilities and experience, and the continued services, of our senior management. The loss of the services of members of our senior management could create a gap in management and could result in the loss of expertise necessary for us to execute our business strategy and thereby adversely affect our business. We do not currently have “key person” life insurance with respect to any of our senior management.

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

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

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

In past years, we have recognized impairments in the carrying value of goodwill and purchased intangible assets. Additional such charges in the future could negatively affect our results of operations and shareholders' equity.

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

In 2017, we recorded an impairment charge in the total amount of approximately $85.7 million -see Item 5A "Operating and Financial Review and Prospects-Operating Results-Critical Accounting Policies and Estimates-Goodwill." We will continue to conduct impairment analyses of our goodwill as required. Further impairment charges with respect to our goodwill would have a material adverse effect on our results of operations and shareholders' equity in future periods.

Several shareholders may be able to control us.

As of March 10, 2019, we have several shareholders, that each beneficially holds more than 5% of our outstanding shares, including Mr. Dror Erez, who is currently a member of our board of directors. See Item 7.A for more information. To our knowledge, these shareholders are not party to a voting agreement with respect to our shares. However, should they or any other shareholders decide to act together, they may have the power to control the outcome of matters submitted for the vote of shareholders. In addition, such share ownership may make certain transactions more difficult and result in delaying or preventing a change in control of the company, unless approved by them.

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

The market price for our ordinary shares, as well as the prices of shares of other Internet companies, has been volatile. Between January 2018 and March 2019, our share price has fluctuated from a high of $4.05 to a low of $2.13, and the average trading volume has been relatively low. The following factors may cause significant fluctuations in the market price of our ordinary shares:

- negative fluctuations in our quarterly revenues and earnings or those of our competitors;
- pending sales into the market due to the sale of large blocks of shares, due to, among other reasons, the expiration of any tax-related or contractual lock–ups with respect to significant amounts of our ordinary shares;
- shortfalls in our operating results compared to levels forecast by us or securities analysts;
- changes in our senior management;
- changes in regulations or in policies of search engine companies or other industry conditions;
- mergers and acquisitions by us or our competitors;
- technological innovations;
- the introduction of new products;
- the conditions of the securities markets, particularly in the Internet and Israeli sectors; and
- political, economic and other developments in Israel and worldwide.

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

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

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

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

As of March 10, 2018, there were outstanding an aggregate of 3,554,628 options to purchase our ordinary shares. As these securities vest, the holders thereof could sell the underlying shares without restrictions, except for the volume limitations under Rule 144 applicable to our affiliates.

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

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

A significant portion of our costs, primarily personnel expenses, are incurred in NIS. Inflation in Israel may have the effect of increasing the U.S. dollar cost of our operations in Israel. Further, whenever the U.S. dollar declines in value in relation to the NIS, it will become more expensive for us to fund our operations in Israel. A revaluation of one percent of the NIS as compared to the U.S. dollar could impact our income before taxes by approximately $0.1 million. The exchange rate of the U.S. dollar to the NIS has been volatile in the past, decreasing by approximately 1% in 2016 and by approximately 10% in 2017, and increasing by approximately 8% in 2018. As of December 31, 2018, we had a foreign currency net liability of approximately $17.0 million (which number includes approximately $15.3 million in NIS denominated convertible bonds that we issued in Israel in September 2014), and our total foreign exchange gain was approximately $1.0 million for the year ended December 31, 2018. 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. We may incur losses from unfavorable fluctuations in foreign currency exchange rates.

We do not intend to pay cash dividends.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our listing on the Nasdaq Stock Market is contingent on our compliance with the NASDAQ’s conditions for continued listing. One of such conditions is maintaining a bid price for our ordinary shares of least $1.00 per share. In March 2018 the price of our ordinary shares dropped below $1.00 per share, and in June we regained compliance with Nasdaq's minimum bid price requirement. Further, on August 26, 2018, following the approval of a special general meeting of our shareholder held on August 2, 2018, we consummated a 3-to-1 reverse share split which also increased the bid price of our ordinary shares. Nevertheless, if our ordinary shares trade for 30 consecutive business days below the $1.00 minimum closing bid price requirement, Nasdaq will send us a deficiency notice giving us 180 calendar days to regain compliance, such as by effecting another reverse share split. There is no assurance that our share price will not decrease in the future below $1.00 per share for a period of 30 consecutive business days or, if it does, that we will be able to regain compliance in a timely manner. If our ordinary shares are delisted from Nasdaq, their liquidity and price may decline.

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

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

Risks related to our Technological Environment

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

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

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

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

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

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

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

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

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

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

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

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

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

Our third-party Internet and telecommunication providers may experience disruptions, which would reduce our revenues and increase our costs. We own servers located in Israel, Europe and the United States and we also rent the services of approximately 600 servers located around the world, mainly through Amazon Web Services. Our servers include mainly web servers, application servers, data collection servers, data storage servers, data processing servers, mail servers and database servers. While we believe that there are many alternative providers of hosting and other communication services available to us, the costs associated with any transition to a new service provider could be substantial. Furthermore, although we maintain back-up systems for most aspects of our operations, we could still experience deterioration in performance or interruption in our systems, delays, and loss of critical data and registered users and revenues, in addition, the services of such providers could be vulnerable to damage or interruption from earthquakes, hurricanes, floods, fires, cyber security attacks, terrorist attacks, power losses, telecommunications failures and similar events. The occurrence of a natural disaster or an act of terrorism, a decision to close such providers facilities without adequate notice, or other unanticipated problems could result in lengthy interruptions to our services. The facilities of such providers also could be subject to break-ins, computer viruses, sabotage, intentional acts of vandalism and other misconduct.

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

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

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

Risks related to Regulatory Changes

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

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

Many areas of the law affecting the Internet remain largely unsettled, even in areas where there has been some legislative action. This uncertainty can be compounded when services hosted in one jurisdiction are directed at users in another jurisdiction. For instance, European data protection rules may apply to companies which are not established in the European Union. The General Data Protection Regulation (which became effective in May 2018) presumably have an even wider territorial scope, broadened the definition of personal data to include location data and online identifiers, and imposes more stringent user consent requirements. Further, it includes stringent operational requirements for companies that process personal data and will contain significant penalties for non-compliance. Also in other relevant subject matters, such as cyber security, e-commerce, copyright and cookies, new European initiatives have been announced by the European regulators. To further complicate matters in Europe, to date, member States have some flexibility when implementing European Directives and certain aspects of the General Data Protection Regulation, which can lead to diverging national rules. Similarly, there have been laws and regulations adopted in Israel and throughout the United States (including the California Consumer Privacy Act (2018) which will become effective on January 1, 2020 and may affect us) that would impose new obligations in areas such as privacy, in particular protection of personally identifiable information and implementing adequate security measures to protect such information, and liability for copyright infringement by third parties. Therefore, it is difficult to determine whether and how existing laws, such as those governing intellectual property, privacy, data collection and protection, libel, marketing, data security and taxation, apply to the Internet and our business.

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

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

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

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

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

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

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

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

Following a US Supreme Court decision regarding the rights of individual states to tax out of state suppliers, certain states have adapted their statutes to expand taxation on out-of-state suppliers of goods and services. Some states are also pursuing legislative expansion of the scope of goods and services that are subject to sales and similar taxes as well as the circumstances in which a vendor of goods and services must collect such taxes. Furthermore, legislative proposals have been introduced in Congress that would provide states with additional authority to impose such taxes. Accordingly, it is possible that either federal or state legislative changes may require us to collect additional sales and similar taxes from our clients in the future which could impact our future sales, and therefore result in a material adverse effect on our revenue.

Certain countries in the European Union and elsewhere have recently proposed taxation on digital services including digital advertising, in various forms, such proposed taxes may have an impact on us.

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

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

Risks Related to our Intellectual Property

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks Related to the Geographical Location of our Operations

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

Our revenues have been concentrated within the North American market, accounting for approximately 78% of our revenues for 2018. A significant reduction in the revenues generated in such market, whether as a result of a recession that causes a reduction in advertising expenditures generally or otherwise, which causes a decrease in our North American revenues, could have a material adverse effect on our results of operations.

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

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

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

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

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

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

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

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

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

Our principal executive offices are located in Israel. In addition, a number of our officers and directors are residents of Israel. Accordingly, political, economic and military conditions in Israel and the surrounding region may directly affect our business and operations. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its neighboring countries, as well as terrorist acts committed within Israel by hostile elements. Any hostilities involving Israel or the interruption or curtailment of trade between Israel and its trading partners could adversely affect our operations and results of operations. During November 2012 and from July through August 2014, Israel was engaged in an armed conflict with a militia group and political party who controls the Gaza Strip, and during the summer of 2006, Israel was engaged in an armed conflict with Hezbollah, a Lebanese Islamist Shiite militia group and political party. In December 2008 and January 2009 there was an escalation in violence among Israel, Hamas, the Palestinian Authority and other groups, as well as extensive hostilities along Israel's border with the Gaza Strip, which resulted in missiles being fired from the Gaza Strip into Southern Israel. Similar hostilities accompanied by missiles being fired from the Gaza Strip into Southern Israel, as well at areas more centrally located near Tel Aviv and at areas surrounding Jerusalem, occurred during November 2012 and July through August 2014. These conflicts involved missile strikes against civilian targets in various parts of Israel, including areas in which our employees and some of our consultants are located, and negatively affected business conditions in Israel. Since February 2011, Egypt has experienced political turbulence and an increase in terrorist activity in the Sinai Peninsula. Such political turbulence and violence may damage peaceful and diplomatic relations between Israel and Egypt, and could affect the region as a whole. Similar civil unrest and political turbulence has occurred in other countries in the region, including Syria, which shares a common border with Israel, and is affecting the political stability of those countries. Since April 2011, internal conflict in Syria has escalated, and chemical weapons have been used in the region. Foreign actors have and continue to intervene in Syria. This instability and any intervention may lead to deterioration of the political and economic relationships that exist between the State of Israel and some of these countries, and may have the potential for additional conflicts in the region. In addition, Iran has threatened to attack Israel and may be developing nuclear weapons. Iran also has a strong influence among extremist groups in the region, including Hamas in Gaza, Hezbollah in Lebanon and various rebel militia groups in Syria. These situations have escalated at various points in recent years and may escalate in the future to more violent events, which may affect Israel and us. Any armed conflicts, terrorist activities or political instability in the region could adversely affect business conditions and could harm our results of operations and could make it more difficult for us to raise capital. Parties with whom we do business have sometimes declined to travel to Israel during periods of heightened unrest or tension, forcing us to make alternative arrangements when necessary in order to meet our business partners face to face. In addition, the political and security situation in Israel may result in parties with whom we have agreements involving performance in Israel claiming that they are not obligated to perform their commitments under those agreements pursuant to force majeure provisions in such agreements.

Our commercial insurance does not cover losses that may occur as a result of events associated with the security situation in the Middle East. Although the Israeli government currently covers the reinstatement value of direct damages that are caused by terrorist attacks or acts of war, we cannot assure you that this government coverage will be maintained or that it will sufficiently cover our potential damages. Any losses or damages incurred by us could have a material adverse effect on our business. Any armed conflicts or political instability in the region would likely negatively affect business conditions and could harm our results of operations.

Further, in the past, the State of Israel and Israeli companies have been subjected to economic boycotts. Several countries still restrict business with the State of Israel and with Israeli companies. These restrictive laws and policies may have an adverse impact on our operating results, financial condition or the expansion of our business. A campaign of boycotts, divestment and sanctions has been undertaken against Israel, which could also adversely impact our business.

In addition, many Israeli citizens are obligated to perform several days, and in some cases more, of annual military reserve duty each year until they reach the age of 40 (or older, for reservists who are military officers or who have certain occupations) and, in the event of a military conflict, may be called to active duty. In response to increases in terrorist activity, there have been periods of significant call-ups of military reservists. It is possible that there will be military reserve duty call-ups in the future. Our operations could be disrupted by such call-ups, which may include the call-up of members of our management. Such disruption could materially adversely affect our business, prospects, financial condition and results of operations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ITEM 4. INFORMATION ON THE COMPANY

A. HISTORY AND DEVELOPMENT OF THE COMPANY

Our History

We were incorporated in the State of Israel in November 1999 under the name Verticon Ltd., changed our name to IncrediMail Ltd. in November 2000 and in November 2011 changed our name to Perion Network Ltd. We operate under the laws of the State of Israel. Our headquarters are located at 26 HaRokmim Street, Holon 5885849, Israel. Our phone number is 972-73-398-1000. Our website address is www.perion.com. The information on our website does not constitute a part of this annual report. Our agent for service in the United States is Intercept Interactive Inc. d/b/a Undertone, which is located at One World Trade Center, 77th Floor, Suite A, New York, NY 10007.

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

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

Our SEC filings are available to you on the SEC's website at http://www.sec.gov. This site contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The information on that website is not part of this annual report and is not incorporated by reference herein.

Principal Capital Expenditures

In 2016 and 2017, capital expenditures consisted of $1.5 million and $1.6 million, respectively, mainly from investments in computer hardware and software. In 2018, capital expenditures consisted of $ 2.0 million mainly from investments in computer hardware and software.

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

B. BUSINESS OVERVIEW

General

Perion is a global technology company that delivers advertising solutions to brands and publishers through innovative platforms that sit on top of the world's largest channels - digital advertising, social media, and search - enabling deeper and more meaningful experiences. Perion is committed to providing data-driven execution, from high-impact ad formats, unified social and mobile programmatic platform to branded search.

Overview

Our advertising solution delivered through Undertone, provides cutting-edge technology solutions for some of the world's leading brands, agencies and publishers with whom we have long-standing and meaningful relationships. Its proprietary Synchronized Digital Branding addresses the most compelling pain points the industry faces, by combining data, distribution and creative to deliver cohesive stories across all critical touchpoints: screens, platforms and a transparent, customizable list of elite publishers. We do this while maintaining brand safety and applying quality filters. Our AI-driven platform delivers advertising solutions that eliminate fragmentation, assists publisher to generate much-needed revenue and, most importantly, ensures brand messaging is synchronized for contextual relevance. Our customers receive dedicated support throughout the full campaign cycle, including planning, creative services, client solutions, campaign management, performance and insights.

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

Our focus on the advertising market is supported by our ability to generate significant revenues and profits by providing search-based monetization solutions for our publishers. These solutions are leveraged by enhanced analytics platform and capabilities to track and monitor their business performance. Publishers implement our solutions into their products and services and monetize them through our monetization solution. The amount of revenue generated as part of the monetization solution depends mainly on the amount search providers receive for advertisements, the ability of the search provider's system in attracting advertisers and efficiently serve sponsored ads and algorithmic results in response to search queries. End users can choose to configure their browser settings through the search setting dialogue, giving them convenient access to search-engine providers, and the ability to conduct searches or follow links to advertisements that advertisers may display.

In addition, we continue to generate a small portion of our revenues through our consumer products - Smilebox, a product that enables people to tell the stories of their lives—big and small—in fun, simple and creative ways with fully customizable eCards, slideshows, invitations, collages and more, and IncrediMail, a unified messaging application that enables consumers to manage multiple email accounts in one place with an easy-to-use interface and extensive personalization features.

Industry Overview

Our advertising and search solutions address the largest worldwide digital ad spending. Our addressable market are advertisements which are mainly based on rich media, video, standard display and search. Based on eMarketer reports, digital advertising spend, including display, social, and search, is expected to account for 50% of total worldwide media advertising spend during 2019 and worldwide digital advertising spend expected to reach more than $333 billion in 2019 and beyond, increasing from $283 billion and from 46% of worldwide advertising spend in 2018.

Advertisers, including major brands, are increasingly allocating media advertising budgets to digital channels and formats. While we work with some advertisers directly, our primary advertising customers are advertising agencies, who are paid by brand advertisers to develop their media plans. We work with these advertisers and agencies to plan, design, deliver, manage, and measure their digital advertising campaigns. We generally do not enter into long term contracts with our advertising customers. We charge customers variable rates based on ad formats, campaign complexity, and creative requirements. We then engage in a consultative sales process to determine the best offering for that customer. Our customers generally purchase our products based on impressions served for each ad type, either using traditional insertion orders, or alternatively, programmatically. Programmatic customers benefit from increased automation, transparency and efficiency of their campaigns. All our advertising customers receive support throughout the campaign cycle, with service and support teams including planning, client solutions, campaign management, performance, and insights. Our advertising solutions and social marketing platform address the display advertising market through direct and programmatic media sales as well as managed and self-service advertising campaign management tools. Worldwide display advertising spend, including banners, rich media, video and social, is expected to reach $172 billion during 2019 and beyond, increasing from $145 billion in 2018, according to eMarketer.

Our search-related products address the search advertising market through syndication and redistribution agreements with premium search providers. Our search offering offers end users the ability to search the Internet via easily embedded in different search assets powered by premium search providers. Worldwide search advertising spend is expected to reach $141 billion in 2019, increasing from $120 billion during 2018, according to eMarketer. We are currently one of the largest redistributors of search monetization in the United States and we generate all our search revenues through our relationship with Microsoft. The fees payable by Microsoft are payable based on a share of the revenue generated as a result of searches conducted by end users who utilize the search engine that appears on our products, the publishers products, search assets and websites.

Strategy

Perion is a global technology company that offers compelling data-driven, digital advertising solutions and search monetization to the world's best brands and publishers - at the core of which lay holistic customer experiences.

In 2017, Perion's management commenced the implementation of a turnaround strategy that combines cost reduction and investment in differentiated technology to drive growth across our core activities as we compete in dynamic markets - technology is essential for our competitive advantage.

Through our advertising offering we target brands that are focused on their relationship with consumers. They recognize that their reputation and ability to compete are determined by meaningful connections that are sequentially delivered by relevant, high-quality creative, across all platforms in brand-safe environments.

Our Synchronized Digital Branding solution is differentiated by our award-winning ad units that deliver impactful and engaging messages, based on data-driven capabilities that reach consumers at the right time, with the right messages across all screens and platforms, through a transparent and customizable list of elite publishers.

In our search solution, we leverage our relationship with Microsoft to drive innovation and revenue as part of our ongoing effort to provide comprehensive and compelling search solutions and monetization tools to diversified publishers around the globe.

Technology

The technology of our advertising solution is designed to connect brands with consumers via digital interfaces. This is done through 7 key components:

- Supply Management;
- Demand Management;
- High Impact Programmatic Market Place;
- Creative platform;
- Data Management;
- Data lake; and
- AI platform.

Supply Management:

The Supply management platform key function is to help manage relationships with our publishers by treating every impression opportunity from publishers in an optimal manner and according to business rules. That includes the understanding of what ads are allowed, what price is expected and what frequency is allowed from the point of view of the publisher. This platform also makes decisions to help meet the monetary expectations of our publishers. All components in our supply management platform are based on proprietary technology and are tailored to our specific needs and use cases.

Demand Management:

The Demand Management platform addresses the needs of brands. This involves few sub platforms including:

a. Smart Planning – the planning platform provides a recommendation for campaign media plan that will hit the goals of the brand. Such plan includes recommendation of media tactics, targeting tactics, sequences and creative strategy based on benchmarks and past experiences of the brand.

b. Campaign management – The planning platform pushes instructions to the campaign management system to execute. The campaign management system receives parameters like dates, volume level, creatives, list of supply sources and campaign goal.

c. Cross social optimization - is a proprietary social platform that helps manage social campaigns across multiple social platforms and optimizes different targeting and or creative tactics to achieve the best results.

d. Analytics Platform - is the system that helps the teams to report back to the brands on the results of their campaign investment proving the value for our customers. This is a flexible system that reports all the required data from impression delivered, budget invested, reach on the campaign, engagement with the ads etc. The analytics platform supports our data driven culture – providing business stakeholders full visibility of KPI's on key processes. Data and reporting are accessed in a self-service manner and pre-build dashboards and reports.

High Impact Programmatic Marketplace

High Impact Programmatic Marketplace is a platform that allows our brands to buy from us in an automated fashion. This marketplace is built on the standard programmatic infrastructure so brands can use their system of choice to buy from us. The brands get full control and transparency of our inventory and can bid in real time to win available supply for their brand.

Creative Rich Media Platform

The creative platform is a key component of the system, it allows us to innovate very quickly on the experience that the end user will be expose to. The proprietary system is a full blown rich media platform comparable to point solutions in the market but tailored to our needs. In such fashion data is flowing seamlessly through the different components allowing for efficiencies and synergies.

Data Management Platform

Our data management platform (DMP) is at the heart of the Synchronized Digital Branding platform as a whole. Its main functionality is to manage available data on a user level. That is what a specific user was exposed to, how such user responded, what third party can report on such user etc. The DMP is connected to all key systems to inform campaign planning, delivery, optimization, creative optimization and analytics.

Data lake platform

Data is at the core of everything we execute and operate. The data lake platform manages raw level data across various data assets. The data is collected at scale and with well-defined schemas. Data assets managed in the data lake are used to support data driven processes and services like analytics processes and AI processes.

AI platform

The AI platform uses AI and machine learning to support the various phases of campaigns. The platform provides services powered by machine learning models built on top of our data platforms. The AI services are used across campaign life cycle: planning and in flight. Based on campaign to campaign learnings the AI generates better performance for our customers and improve efficiency by automating manual operational processes.

In our search offering, we differentiate ourselves by providing our publishers with three major technology-driven advantages:

- Provide a user-friendly monetization solution, that enables them to engage users, by providing quality products and services, easy setup, while creating monetization through, non-intrusive and transparent means;
- deliver analytics and optimization tools providing insights to our publishers that allow them to extend their reach and increase monetization with a positive return on investment; and
- offer creative and flexible monetization models with scalable risk and reward, suited to the business of our publishers.

Products under Development

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

Breakdown of Revenues

Our search monetization solutions, advertising and other, are distributed and sold throughout the world (mainly in North America and Europe). The following table shows the revenues, presented in our statement of operations, generated by territory in the years ended December 31, 2016, 2017 and 2018.

	2016		2017		2018	
	Search and other Revenues	Advertising Revenues	Search and other Revenues	Advertising Revenues	Search and other Revenues	Advertising Revenues
North America	75%	89%	70%	86%	65%	91%
Europe	20%	9%	24%	11%	29%	8%
Other	5%	2%	6%	3%	6%	1%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Intellectual Property

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

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

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

All employees and consultants are required to execute confidentiality covenants in connection with their employment and consulting relationships with us. These agreements (excluding those with our German and U.K. employees) also contain assignment and waiver provisions relating to the employee's or consultant's rights in respect of inventions. It should be noted that as of December 31, 2018, we have terminated our operations in Germany and the U.K and thus, as of the date of this annual report on Form 20-F we no longer employ German and U.K employees.

Competition

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

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

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

As a major part of our revenues stem from our offering of search properties, we compete with search engine providers themselves such as Google, Microsoft, Verizon Media, IAC and others. We also compete with many other companies offering consumer software, albeit totally different software, utilizing the same strategy, to offer their search properties, such as Interactive Corporation, Oath, System1 and others.

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

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

Government Regulation

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

For example, we are subject to U.S. federal and state laws regarding copyright infringement, privacy and protection of user data, many of which are subject to regulation by the Federal Trade Commission. These laws include the Digital Millennium Copyright Act, which aims to reduce the liability of online service providers for listing or linking to third-party websites that include materials that infringe copyrights or the rights of others, and other federal laws that restrict online service providers' collection of user information on minors as well as distribution of materials deemed harmful to minors. The California Consumer Privacy Act (2018) will become effective on January 1, 2020 and may affect us. Many U.S. states, such as California, are adopting statutes that require online service providers to report certain security breaches of personal data and to report to consumers when personal data will be disclosed to direct marketers. There are also a number of legislative proposals pending before the U.S. Congress and various state legislative bodies concerning data protection which could affect us. The interpretation of data protection laws, and their application to the Internet, is unclear and in a state of flux. There is a risk that these laws may be interpreted and applied in conflicting ways and in a manner that is not consistent with our current data protection practices.

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

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

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

C. ORGANIZATIONAL STRUCTURE

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

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

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

D. PROPERTY, PLANTS AND EQUIPMENT

Our headquarters are located in Holon, Israel. As of December 31, 2018 we lease approximately 30,946 square feet, excluding office space which we currently sublease. The lease expires in 2025, with an option to extend for two additional two-year periods, additionally, the lease agreement provides the Company (at its sole discretion, and by a 180-day prior written notice) with an option to terminate the lease in November 2019. Annual cost is approximately $0.6 million.

As of December 31, 2018, we lease approximately 53,430 square feet in various locations in the United States, excluding office spaces we currently sublease. Our primary locations, and their principal terms, are as follows:

	Square feet (net)	Annual Rent for 2018 in US$ in thousands (net)	Lease expires on (not including options)
New York, New York	40,310	$ 1,946	2019
Chicago, Illinois	3,984	$ 142	2023

In June 2018, Undertone entered into a lease agreement for an office at the World Trade Center (WTC) New York. The lease expires in May 2026, and the company, at its sole discretion, may terminate the lease on 2024. This new lease agreement replaces, effective as of January 2019, the previous lease agreement of Undertone at 340 Madison avenue.

In Chicago the Company amended its lease agreement during September 2018, mainly with respect to the size of space being leased. The lease agreement will expire in September 2023.

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

	Square feet	Annual Rent for 2018 in US$ in thousands	Lease expires on (not including options)
Paris, France	6,200	$ 450	2019

During 2018 we closed three offices in Europe (Hamburg, Dusseldorf and London), the lease agreements having been either terminated or assigned. As of the date of this annual report on Form 20-F, we maintain offices in Paris and Barcelona.

In December 2018, we entered into a new lease agreement in Paris. This lease agreement will expire in March 2028, unless terminated earlier in accordance with its terms.

ITEM 4.A UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

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

A. OPERATING RESULTS

General

Perion is a global technology company that delivers advertising solutions to brands and publishers through innovative platforms that sit on top of the world's largest channels - digital advertising, social media, and search - enabling deeper and more meaningful experiences. Perion is committed to providing data-driven execution, from high-impact ad formats, unified social and mobile programmatic platform to branded search.

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

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

Revenues

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

	Year Ended December 31,		
	2016	2017	2018
Advertising	$ 140,111	$ 134,481	$ 125,977
Search and other	172,683	139,505	126,868
Total Revenues	**$ 312,794**	**$ 273,986**	**$ 252,845**

In 2017, revenues decreased by 12% compared to 2016, primarily due to the cleanup of our existing network, the churn of our legacy products and slower than expected brand spent in the first quarter of 2017 that relating to the uncertainty following the U.S. elections. In 2018, revenues decreased by 8% compared to 2017, primarily due to a result of Search and other revenues declining 9% due to churn of our legacy products and the network cleanup in the second quarter of 2017, along with a 6% decrease in our Advertising revenues mainly due to insufficient programmatic inventory to meet our demand for our programmatic high-impact ad units.

Cost of Revenues

Cost of revenues consists primarily of salaries and related expenses, license fees and payments for content and server maintenance. Cost of revenues were $24.7 million or 9% of revenues in 2017 and $23.8 million or 9% of revenues in 2018. The number of employees included in cost of revenues as of December 31, 2016, 2017 and 2018 were 87, 94 and 76, respectively.

Customer Acquisition Costs and Media Buy

Our customer acquisition costs consist primarily of payments to publishers and developers who distribute our search properties together with their products, as well as the cost of distributing our own products. Customer acquisition costs are primarily based on revenue share agreements with our traffic sources. Media buy costs consist mainly of the costs of advertising inventory incurred to deliver ads. Customer acquisition and media buy costs were $130.9 million or 48% of revenues and $128.4 million or 51% of revenues in 2017 and 2018, respectively. In search, the increase as a percentage of revenues is primarily due to churn of our legacy products, while in advertising, the increase is mainly attributed to product mix and due to the effect of header bidding and Chrome ad blocker.

Research and Development Expenses

Our research and development expenses consist primarily of salaries and other personnel-related expenses for employees primarily engaged in research and development activities, allocated facilities costs, subcontractors and consulting fees. Research and development expenses were $17.2 million or 6% of revenues in 2017 and $18.9 million or 7% of revenues in 2018. Our research and development expenditures in 2018 increased compared to the prior year, primarily as a result of reduction of capitalization expenses due to development completion of platforms during 2018.

The number of employees in research and development were 141, 117 and 86 as of December 31, 2016, 2017 and 2018, respectively.

Selling and Marketing Expenses

Our selling and marketing expenses consist primarily of salaries and other personnel-related expenses for employees primarily engaged in marketing activities, allocated facilities costs, as well as other outsourced marketing activity. Selling and marketing expenses were $52.7 million or 19% of revenues in 2017 and $38.9 million or 15% of revenues in 2018. The decrease was primarily due to restructuring efforts undertaken during 2017 and in the beginning of 2018; the savings resulted from reduction of headcount, close of office facilities and other cost optimizations. The number of employees in sales and marketing was 197, 167 and 141 as of December 31, 2016, 2017 and 2018, 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. General and administrative expenses were $21.9 million or 8% of revenues in 2017 and $16.4 million or 7% of revenues in 2018. The decrease was primarily due to restructuring efforts undertaken during 2017 and in the beginning of 2018; the savings resulted from reduction of headcount, close of office facilities and other cost optimizations. The number of G&A employees was 110, 86 and 60 as of December 31, 2016, 2017 and 2018, respectively.

Restructuring Charges

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

In 2017, there were no restructuring charges.

In 2018, we incurred restructuring charges of $2.1 million, in connection with the restructuring plan, mainly to reduce workforce, close certain facilities, as well as other cost saving measures.

Impairment, net of change in fair value of contingent consideration

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

We perform tests for impairment of goodwill and intangible assets at the reporting unit level at least annually, or more frequently if events or changes in circumstances occur that would more likely than not reduce the fair value of a reporting unit below its carrying value.

In 2017, following an impairment review of our goodwill and intangible assets that were recognized in connection with the acquisition of Undertone, the Company recorded an impairment charge of $85.7 million to its Goodwill and intangible assets. Following an impairment review of our goodwill and intangible assets for 2018, it was concluded that no such impairment charges should be recorded in 2018.

Depreciation and amortization

Depreciation and amortization consist primarily of depreciation of our property and equipment and the amortization of our intangible assets as a result of our acquisitions. Depreciation and amortization expenses decreased by 41% from $16.6 million in 2017 to $9.7 million in 2018. This decrease is primarily attributable to the lower amortization of the acquired intangible assets from the Undertone acquisition, as a result of an impairment charge in 2017.

Income Tax Expense

A significant portion of our income is taxed in Israel and, as a result of the Undertone acquisition on November 30, 2015, in the United States. The standard corporate tax rate in Israel was 24% in 2017 and is 23% as of 2018. For our Israeli operations we have elected to implement a tax incentive program pursuant to a 2011 Israeli tax reform, referred to as a "Preferred Enterprise," according to which a reduced tax rate of 16.0% is applied to our preferred income in 2016. In 2017 and 2018 we elected to implement the "Preferred Technological Enterprise" benefits pursuant to an amendment to the taxation laws which went into effect in 2017, under which a tax rate of 12% is applied to a portion of our income which qualifies for the benefits. Any other income which does not qualify for special benefits is subject to tax at the ordinary corporate income tax rate. With respect to U.S. tax, we expect to utilize accumulated losses we have from prior U.S. acquisitions. The federal statutory income tax rate in the United States was 35.0% in 2017 and 21% starting from 2018. Subsidiaries in Europe are taxed according to the tax laws in their respective countries of residence.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "TCJA"). The TCJA makes broad and complex changes to the Code. The changes include, but are not limited to:

- A corporate income tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017 ("Rate Reduction");
- The transition of U.S international taxation from a worldwide tax system to a territorial system by providing a 100 percent deduction to an eligible U.S. shareholder on foreign sourced dividends received from a foreign subsidiary ("100% Dividend Received Deduction");

- A one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings as of December 31, 2017;
- Taxation of global intangible low-taxed income ("GILTI") earned by foreign subsidiaries beginning after December 31, 2017. The GILTI tax imposes a tax on foreign income in excess of a deemed return on tangible assets of foreign corporations; and
- Taxation of base erosion and anti-abuse ("BEAT") payments made by U.S. corporations to foreign related parties. The BEAT tax applies only to corporation with average gross domestic sales of $500 million over three successive years.

The Company recognizes that the IRS, the Financial Accounting Standards Board and the SEC are continuing to publish and finalize ongoing guidance with respect to the TCJA which may modify accounting interpretation for the TCJA, the Company will account for these impacts in the period in which any changes are enacted.

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

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

We should not be subject to BEAT during 2019 due to the gross domestic sales threshold.

Critical Accounting Policies and Estimates

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

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

Stock-Based Compensation

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

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

In order to keep our competitive hiring position in the industry, following the Board approval in December 2017, we effected in 2018 an option repricing plan. Under the repricing plan, among others, options granted to all of our employees, with certain limited exceptions and other than our directors, were adjusted to have an exercise price per share equal to $3.24, which was the weighted average price of our ordinary shares on Nasdaq in the last 90 days prior to the date of approval of the plan by our board of directors as well as have a new vesting schedule. The total incremental fair value of these repriced options amounted to $1.5 million, and was determined based on the binomial pricing options model.

Total stock-based compensation expense recorded during 2018 was $2.7 million, of which $0.1 million was included in cost of revenues, $0.5 million in research and development costs, $0.8 million in selling and marketing expenses, and $1.3 million in general and administrative expenses.

As of December 31, 2018, the maximum total compensation cost related to options, granted to employees and directors not yet recognized amounted to $3.0 million. This cost is expected to be recognized over a weighted average period of 1.43 years.

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

Taxes on Income

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

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

Accounting for tax positions requires judgments, including estimating reserves for potential uncertainties. We also assess our ability to utilize tax attributes, including those in the form of carry forwards for which the benefits have already been reflected in the financial statements. We record valuation allowances for deferred tax assets that we believe are not more likely than not to be realized in future periods. While we believe the resulting tax balances as of December 31, 2018 are appropriately accounted for, the ultimate outcome of such matters could result in favorable or unfavorable adjustments to our consolidated financial statements and such adjustments could be material. See Note 14 of the Financial Statements for further information regarding income taxes. We have filed or are in the process of filing local and foreign tax returns that are subject to audit by the respective tax authorities. The amount of income tax we pay is subject to ongoing audits by the tax authorities, which often result in proposed assessments. We believe that we adequately provided for any reasonably foreseeable outcomes related to tax audits and settlement. However, our future results may include favorable or unfavorable adjustments to our estimated tax liabilities in the period the assessments are made or resolved, audits are closed or when statutes of limitation on potential assessments expire.

Business Combinations

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

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

Goodwill

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

During 2017 we determined that certain indicators of potential impairment existed, which triggered goodwill impairment analysis for our reporting units. These indicators included a decrease in the Company's share price and a miss of the targeted budget due to lower sales and higher media buy as a percentage of revenues. Accordingly, we determined that the carrying amount of the Undertone reporting unit exceeds its fair value and thus we recorded in 2017 an impairment charge of $65.7 million related to goodwill. No such impairment charges were recorded in 2018.

Impairment of Long-Lived Assets

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

Upon determination that the carrying value of a long-lived asset may not be recoverable based upon a comparison of aggregate undiscounted projected future cash flows from the use of the asset or asset group to the carrying amount of the asset, an impairment charge is recorded for the excess of carrying amount over the fair value. We measure fair value using discounted projected future cash flows. We base our fair value estimates on assumptions we believe to be reasonable, but these estimates are unpredictable and inherently uncertain. If these estimates or their related assumptions change in the future, we may be required to record impairment charges for our tangible and intangible long-lived assets subject to amortization. In 2017, we incurred impairment charges of $20.0 million related to intangible assets associated with our reporting units. In 2018, no such impairment charges were recorded.

Derivative and Hedge Accounting

During fiscal 2016, 2017 and 2018, approximately 13%, 9% and 9%, respectively, of our operating expenses, were denominated in NIS. In order to mitigate the potential adverse impact on cash flows resulting from fluctuations in the NIS exchange rate, we started to hedge portions of our NIS forecasted expenses with derivatives contracts. We implement hedge accounting under ASC-815, therefore, the effective portion of the change in fair value on the derivatives is reported as a component of other comprehensive income and gains or losses are reclassified into the relevant period earnings. We recognize in "financial income, net" the ineffective portion of a derivative change in fair value, if any, as well as the change in fair value of all non-designated under hedge accounting derivatives. We also entered into a cross currency interest rate SWAP agreement in order to translate our convertible debt (principal and interests) NIS cash flow into USD (see Note 8 and Note 10 of the Financial Statements). The SWAP contracts were not designated as hedging instruments and therefore gains or losses resulting from the change of their fair value are recognized in "financial income, net". We estimate the fair value of such derivative contracts by reference to rates quoted in active markets.

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

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

Recent Accounting Standards

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2016-02 (Topic 842) "Leases." Topic 842 supersedes the lease requirements in Accounting Standards Codification (ASC) Topic 840, "Leases." Under Topic 842, lessees are required to recognize assets and liabilities on the balance sheet for most leases and provide enhanced disclosures. Leases will continue to be classified as either finance or operating. This ASU is effective for annual periods beginning after December 15, 2018. The provisions of ASU 2016-02 are to be applied using a modified retrospective approach. In July 2018, the FASB issued Accounting Standards Update 2018-11, Leases (Topic 842). This update provides entities with an additional (and optional) transition method to adopt the new leases standard. Under this method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Consequently, the prior comparative period's financials will remain the same as those previously presented. The Company has elected to apply the guidance at the beginning of the period of adoption and not restate comparative periods.

The Company expects that the adoption of this standard will have a material effect on its consolidated financial statements. While the Company continues to assess all the effects of adoption, it currently believes that the most significant impact will be reflected in: (i) the recognition of new ROU assets and lease liabilities on the consolidated balance sheet for its operating leases of buildings, and vehicles, and (ii) the requirement to provide significant new disclosures regarding the Company's leasing activities. The Company, however, does not expect a material impact to its consolidated statements of income and consolidated statements of cash flow since the expense recognition under this new standard will be similar to current practice. The Company's financial income (expenses), net will be impacted by the revaluation of the lease liabilities in non-USD denominated currencies.

Following adoption of the new standard, the Company expects to recognize additional operating liabilities of $25.8 million, with corresponding ROU assets of approximately the same amount based on the present value of the remaining minimum rental payments under current leasing standards for existing operating leases.

The Company expects to elect the short-term lease recognition exemption for all leases that qualify. This means, for those leases, the Company will not recognize ROU assets or lease liabilities.

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

In February 2018, the FASB issued ASU 2018-02 "Income Statement—Reporting Comprehensive Income—Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income". The guidance allows reclassification of stranded tax effects resulting from the Tax Cuts and Jobs Act from accumulated other comprehensive income to retained earnings. This guidance is effective for fiscal years beginning after December 15, 2018. The adoption of this guidance has no material impact on the Company's consolidated financial statements.

In June 2018, the FASB issued ASU 2018-07 "Improvement to Nonemployee Share-Based Payments Accounting". This guidance simplifies the accounting for non-employee share-based payment transactions. The amendments specify that ASC 718 applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in a grantor's own operations by issuing share-based payment awards. The guidance is effective for fiscal years beginning after December 31, 2018. The Company does not expect that the adoption of this guidance will have a significant impact on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13 "Fair Value Measurement (Topic 820)—Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement". This guidance removes certain disclosure requirements related to the fair value hierarchy, modifies existing disclosure requirements related to measurement uncertainty and adds new disclosure requirements. The new disclosure requirements include disclosing the changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. Certain disclosures required by this guidance must be applied on a retrospective basis and others on a prospective basis. The guidance will be effective for fiscal years beginning after December 15, 2019, although early adoption is permitted. The Company is currently evaluating this guidance to determine the impact it may have on its consolidated financial statements.

Results of Operations

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

	Year ended December 31,		
	2016	2017	2018
Cost of revenues	$ 25,924	$ 24,659	$ 23,757
Customer acquisition costs and media buy	140,210	130,885	128,351
Research and development	25,221	17,189	18,884
Selling and marketing	54,559	52,742	38,918
General and administrative	28,827	21,911	16,450
Depreciation and amortization	25,977	16,591	9,719
Restructuring costs	728	-	2,075
Impairment, net of change in fair value of contingent consideration	-	85,667	-
Total Costs and Expenses	**$ 301,446**	**$ 349,644**	**$ 238,154**

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,		
	2016	2017	2018
Revenues:			
Advertising	45%	49%	50%
Search and other	55	51	50
Total revenues	**100%**	**100%**	**100%**
Costs and expenses:			
Cost of revenues	8%	9%	9%
Customer acquisition costs and media buy	45	48	51
Research and development	8	6	7
Selling and marketing	17	19	15
General and administrative	9	8	7
Depreciation and amortization	8	6	4
Restructuring charges	(*)	(*)	1
Impairment, net of change in fair value of contingent consideration	-	31	-
Total costs and expenses	**96**	**127**	**94**
Operating income (loss)	**4**	**(27)**	**6**
Financial expenses, net	3	2	2
Income (loss) before taxes on income	**1**	**(29)**	**4**
Income tax expense (benefit)	(*)	(3)	1
Loss from continuing operations	**(1)**	**(26)**	**3**
Loss from discontinuing operations, net	1	-	-
Net Income (loss)	**(*)%**	**(26)%**	**3%**

(*) less than 1%

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

Revenues. Revenues decreased by 8%, from $274.0 million in 2017, to $252.8 million in 2018.

Search and other revenues. Search and other revenues decreased by 9% in 2018, from $139.5 million in 2017, to $126.9 million in 2018. This decrease was primarily due to the churn of our legacy products and the network cleanup in the second quarter of 2017.

Advertising revenues. Advertising revenues decreased by 6% in 2018, from $134.5 million in 2017, to $126.0 million in 2018. This decrease is attributable to insufficient programmatic inventory to meet our demand for our programmatic high-impact ad units.

Cost of revenues. Cost of revenues decreased by 4%, from $24.7 million in 2017, to $23.8 million in 2018. Cost of revenues remained stable in terms of the percentage of revenues, representing 9% of revenues in 2017 and 2018.

Customer acquisition costs ("CAC") and media buy. CAC and media buy decreased by 2%, from $130.9 million or 48% of revenues in 2017, to $128.4 million or 51% of revenues in 2018. In search, the increase as a percentage of revenues is primarily due to churn of our legacy products, while in advertising, the increase is mainly attributed to product mix and due to the effect of header bidding and Chrome ad blocker.

Research and development expenses ("R&D"). R&D increase by 10%, from $17.2 million in 2017, to $18.9 million in 2018. The increase was primarily as a result of reduction of capitalization expenses due to development completion of platform during 2018.

Selling and marketing expenses ("S&M"). S&M expenses decreased by 26%, from $52.7 million in 2017, to $38.9 million in 2018. The decrease was primarily as a result of restructuring efforts undertaken during 2017 and in the beginning of 2018; the savings resulted from reduction of headcount, close of office facilities and other cost optimizations.

General and administrative expenses ("G&A"). G&A decreased by 25%, from $21.9 million in 2017, to $16.5 million in 2018. The decrease is primarily due to restructuring efforts undertaken during 2017 and in the beginning of 2018; the savings resulted from reduction of headcount, close of office facilities and other cost optimizations.

Restructuring costs. In 2018, the Company incurred a restructuring costs of $2.1 million in connection with the restructuring plan, mainly to reduce workforce, close certain facilities, as well as other cost saving measures. In 2017, no restructuring charges were recorded.

Depreciation and amortization. Depreciation and amortization expenses decreased by 41%, from $16.6 million in 2017, to $9.7 million in 2018. Depreciation and amortization consist primarily of depreciation of our property and equipment and the amortization of our intangible assets as a result of our acquisitions. The decrease is primarily attributable to the lower amortization of the acquired intangible assets from the Undertone acquisition, as a result of an impairment charge in 2017.

Impairment, net of change in fair value of contingent consideration. In 2017, the Company recorded an impairment charge of $85.7 million, classified as "Impairment charges" in the consolidated statements of income. No further impairment charges were recorded in 2018.

Taxes on income (benefit). Taxes on income increased by $11.6 million from a tax benefit of $(8.8) million in 2017, to a tax expense of $2.8 million in 2018. The increase was primarily a result of the decrease of deferred taxes on intangible assets in 2017.

Net income (loss) from continuing operations. Net income (loss) from continuing operations increased by $80.9 million, from a net loss of $72.8 million in 2017 to a net income of $8.1 million in 2018. The increase resulted primarily from the non-recurring impairment charge of $85.7 million that recorded in 2017.

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

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

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

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

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

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

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

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

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

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

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

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

Taxes on income (benefit). Taxes on income decreased by $9.0 million from $0.2 million in 2016 to a tax benefit of $(8.8) million in 2017. The decrease was primarily a result of impairment charges which resulted in a decrease of deferred taxes.

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

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

B. LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2018, we had $43.1 million in cash, cash equivalents and short-term deposits, compared to $37.5 million at December 31, 2017. The $5.6 million increase is primarily the result of $32.8 million cash provided by operating activities offset by $23.0 million repayment of our short and long term debt and $4.2 million used in other investing activities.

For 2016, 2017 and 2018, our cash flows were as follows (in thousands of U.S. dollars):

	Year ended December 31		
	2016	**2017**	**2018**
Net cash provided by continuing operating activities	$ 33,784	$ 36,013	$ 32,801
Net cash used in discontinued operating activities	(3,329)	-	-
Net cash provided by (used in) investing activities	28,084	(4,851)	(1,822)
Net cash used in financing activities	(52,607)	(23,840)	(23,009)
	$ 5,932	**$ 7,322**	**$ 7,970**

Net cash provided by continuing operating activities

In 2018, our operating activities provided cash in the amount of $32.8 million, primarily as result of income in the amount of $8.1 million, decreased by non-cash expenses, depreciation and amortization of $9.7 million, share-based compensation expenses of $2.7 million and net change of $12.8 million in operating assets and liabilities.

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

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

Net cash provided by (used in) investing activities

In 2018, we used in our investing activities $1.8 million cash, primarily due $1.7 million invested in development costs that were capitalized, $1.9 million of proceeds from maturities of short-term bank deposits and $2.0 million invested in the purchase of property and equipment.

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

In 2016, our investing activities provided $28.0 million cash, primarily due to $34.0 million of proceeds from maturities of short-term bank deposits, partially offset by $4.6 million invested in capitalized development costs and $1.4 million invested in the purchase of property and equipment, net of proceeds from sale.

Net cash used in financing activities

In 2018, we used in our financing activities $23.0 million cash, primarily due to $36.5 million in repayments of long-term loans, $8.2 million repayment of our convertible bonds and $3.3 million used for the repayment of obligations related to the SweetIM acquisition, partially offset by $25.0 million proceeds from long-term loans following the new Mizrahi Credit facilities.

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

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

Credit facilities

On May 17, 2012, we entered into a loan agreement with two Israeli banks, pursuant to which we borrowed $10.0 million. On April 1, 2015, we amended the loan agreement to ensure the fulfillment of the financial covenants, effective December 31, 2014. As of December 31, 2016, we have fully repaid one of the loans, and as of April 30, 2017, we fully repaid the second loan.

On November 30, 2015, concurrent with the closing of the Undertone acquisition, Undertone entered into a new secured credit agreement with SunTrust Bank, Silicon Valley Bank and Comerica Bank, (Comerica Bank having been replaced in 2016 by Cadence Bank). This facility was repaid in full from the proceeds of the Bank Mizrahi facility. See "Bank Mizrahi credit facility" below.

Bank Mizrahi credit facility

On May 10, 2017, ClientConnect executed a credit facility with Mizrahi Tefahot Bank Ltd. ("Bank Mizrahi"), an Israeli bank, pursuant to which ClientConnect was permitted to borrow up to $17.5 million. This facility was repaid in full from the proceeds of the new Bank Mizrahi facility.

On December 17, 2018, ClientConnect executed a new loan facility with Bank Mizrahi in the amount of $25 million. Proceeds of the loan facility were applied to the refinancing of existing debt of ClientConnect with Bank Mizrahi as well as existing debt of Undertone with SunTrust Bank.

Principal on the loan is payable in twelve equal quarterly instalments beginning in March 2019. Interest on the loan at the rate of three-month LIBOR plus 5.7% per annum is payable quarterly. The credit facility is scheduled to mature on December 31, 2021.

The credit facility is secured by liens on the assets ClientConnect of and Undertone and is guaranteed by Perion and Undertone. Each such guarantee is limited in amount to $33 million. Financial covenants for the loan facility are tested at the level of Perion on a consolidated basis.

The major financial covenants under the Bank Mizrahi credit facility are as follows:

- shareholders' equity of at least $120 million at the end of each quarter (at least $80 million after repayment in full of the Bonds);
- ratio of net financial indebtedness to twelve-month EBITDA of not more than 2.5 at the end of each quarter (less than 2.25 after repayment in full of the Bonds);
- twelve-month EBITDA at the end of each quarter of not less than 40% of original aggregate principal amount of the bonds (not applicable after repayment in full of the Bonds); and
- maintenance at all times of cash and cash equivalents in an amount equal to the lesser of (i) $10 million and (ii) the amount of the following payment of principal and interest.

As of December 31, 2018, the balance of the loan was $25.0 million out of which $16.7 million was classified as long-term debt and $8.3 million as current maturities.

As of December 31, 2018, we were in compliance with all of the foregoing covenants.

Series L Convertible Bonds

On September 23, 2014, we completed a public offering in Israel of Series L Convertible Bonds (the "Bonds"). The Bonds have an aggregate principal amount of approximately NIS 143.5 million (approximately $39.2 million), of which, as of December 31, 2018, approximately NIS 57.4 million are outstanding (approximately $15.3 million). The Bonds, which are listed on the TASE, are convertible into an aggregate of approximately 4.3 million ordinary shares, at a conversion price of NIS 100.815 per share (approximately $26.9 per share as of December 31, 2018). The principal of the Bonds is repayable in five equal annual installments commenced on March 31, 2016, with a final maturity date of March 31, 2020. The Bonds bear interest at the rate of 5% per year, subject to increases up to 6%, in the event of downgrades of our debt rating. On February 28, 2019, Standard & Poor's Maalot Ratings Services reaffirmed our corporate credit rating of ilA-, with a stable outlook. The interest is payable semi-annually on March 31 and September 30 of each of the years 2015 through 2019, as well as a final payment on March 31, 2020.

In December 2014, we executed a cross-currency and interest swap transaction with one of the banks in order to mitigate the potential impact of the fluctuations in the NIS and US$ exchange rate in regard to the future interest and principal payments of our convertible bonds (described below), which are denominated in NIS.

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

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

As of December 31, 2018, we were in compliance with all of the foregoing covenants.

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

Private placement

On December 3, 2015, we completed a private placement of 1,478,966 ordinary shares for gross proceeds of $10 million, net of legal fees, pursuant to a securities purchase agreement with J.P. Morgan Investment Management Inc., as investment advisor to the National Council for Social Security Fund and 522 Fifth Avenue Fund L.P. (collectively referred to as the "Investors"). The purchase price per share was $6.846 per share, which was the average closing price of an ordinary share on the Nasdaq Global Select Market for the 30 trading days ending on December 1, 2015. According to a one-time price adjustment mechanism in the securities purchase agreement, on September 1, 2016, the per share purchase price was adjusted downward by 15%, and we issued to the Investors 260,993 additional ordinary shares.

Financing Needs

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

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

Our research and development activities are conducted internally by 86 persons at December 31, 2018. Research and development expenses were $25.2 million, $17.2 million and $18.9 million in the years ended December 31, 2016, 2017 and 2018, respectively. In 2018, our efforts were focused in adapting and maintaining compatibility with the ever-changing business landscapes and automation of our platforms and operating systems.

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

D. TREND INFORMATION

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

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

3. Our search monetization revenue is predominantly within the desktop computers environment. The transition in recent years of consumer consumption of applications, services and content from desktop towards mobile platforms has accelerated and, as a result, an increasing share of advertising campaigns are channeled towards mobile platforms resulting in fewer consumer software downloadable products are being developed. To address this trend, we have shifted the growth focus of all parts of this business away from downloadable desktop software towards the monetization of other search assets.

4. In past years the browser companies, particularly Google and Microsoft, as well as others, have been instituting policy changes, regulations and technologies that is making it increasingly difficult to change a browser's settings even with user consent, including the ability to change a browser's default search settings. Changing such settings has been a major part of the Company's monetization model and until now we have been successful in dealing with these measures, within the framework allowed by these companies We continue to believe, as supported by the level of revenues over the last couple of years, that as the market continues to consolidate around accepted marketing practices, there remains sufficient business at a level sufficient to generate significant revenues and profits.

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

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

E. OFF-BALANCE SHEET ARRANGEMENTS

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

F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The following table summarizes our contractual commitments as of December 31, 2018 and the effect those commitments are expected to have on our liquidity and cash flow in future periods. All numbers below are in US dollars in thousands.

	Payments Due by Period(****)				
Contractual Commitments as of December 31, 2018	**Total**	**Less than 1 year**	**1-3 Years**	**3-5 Years**	**More than 5 Years**
Long-term debt, including current portion (*)	$ 25,000	$ 8,333	$ 16,667	$ -	$ -
Accrued severance pay (**)	1,676	-	-	-	1,676
Uncertain tax positions (ASC-740)	3,487	-	-	-	3,487
Convertible debt (*)	15,313	7,657	7,656	-	-
Payment obligation related to acquisitions (***)	1,813	1,813	-	-	-
Operating leases	36,520	5,102	11,753	9,743	9,922
Total	$ 80,322	$ 22,904	$ 36,076	$ 9,743	$ 11,598

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

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

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

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. DIRECTORS AND SENIOR MANAGEMENT

The following table sets forth information regarding our executive officers and directors as of March 10, 2019:

Name	Age	Position
Eyal Kaplan*(1)(2)	59	Chairman of the Board of Directors
Doron Gerstel	58	Chief Executive Officer; Director
Maoz Sigron	41	Chief Financial Officer
Dror Erez	49	Director
Sarit Firon*(1)(3)(4)	52	External Director
Rami Schwartz* (1) (3)	61	Director
Daniel E. Aks*(2)(3)(4)	59	External Director
Michael Vorhaus*(2) (4)	61	Director
Miki Kolko	56	Chief Technology Officer
Tal Jacobson	44	General Manager, CodeFuel
Ran Cohen	48	Senior Vice President, Product

* "Independent director" under the Nasdaq Listing Rules.
(1) Member of the investment committee.
(2) Member of the nominating and governance committee.
(3) Member of the compensation committee.
(4) Member of the audit committee.

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

Eyal Kaplan has been the chairman of the board of directors of the Company since May 2018. Mr. Kaplan is also the Chairman of Expand Investments, an advisory and consulting firm focusing on growth-through-innovation and corporate strategies. Prior to that, he was Managing General Partner with Walden Israel, a venture capital firm, during which time he was Director and Chairman of numerous portfolio companies. In 1990 he co-founded Geotek Communications, an international wireless communications company, and served as senior vice president with broad strategic, managerial and operational responsibilities until 1995. Mr. Kaplan has been a member of the Technion (Israel Institute of Technology) Council (executive board) since January 2014, where he chairs the Finance Committee and is a member of the Endowment Investment Committee. Since 2012 he has been a member of the Technion Board of Governors, a body of some 300 high-profile visionaries and decision makers with outstanding achievements in the fields of science, technology, economy, industry, culture and society. From 2007 to 2012, Mr. Kaplan was a member of the Advisory Committee of Caesarea Center for Capital Markets & Risk Management, and from 2005 to 2014, he was a member of the Advisory Committee of the Global Consulting Practicum at the Wharton School of the University of Pennsylvania. Mr. Kaplan holds an MBA from the Wharton School of the University of Pennsylvania, a Master of Arts in International Studies from the Lauder Institute of the University of Pennsylvania, and a Bachelor of Science degree (with Honors) in economics and management from the Technion - Israel Institute of Technology.

Doron Gerstel has been a director of the Company since May 2018, and the Chief Executive Officer of the Company since April 2017. In his previous role as CEO of Panaya Ltd., Mr. Gerstel led a company turnaround that saw an increase in annual revenue and the company's acquisition by Infosys Limited. Mr. Gerstel has also held CEO positions at Nolio Ltd., Syneron Medical Ltd. and Zend Technologies Ltd. Mr.Gerstel holds a BSc. in Economics and Management from the Technion Institute of Technology in Haifa, and an MBA from Tel Aviv University.

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

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

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

Rami Schwartz has joined The Portland Trust as Managing Director of the Tel Aviv office in April 2018. Mr. Schwartz also serves as an advisory board member of Algosec. Previously, Mr. Schwartz was the President of the Amdocs Products and Amdocs Delivery groups for 7 years. Prior to joining Amdocs, Mr. Schwartz was the Chairman of Olive Software (acquired by ESW Capital), and Comply, the co-founder and CEO of Zizio and DigiHOO, and an EIR at Cedar Fund. Mr. Schwartz was CEO and director of Exanet (acquired by Dell) and General Manager of Precise Software (acquired by Veritas software) and an EIR at Cedar Fund. Mr. Schwartz holds a B.Sc. in excellence, in Mathematics and Computer Science from the Hebrew University in Jerusalem.

Daniel E. Aks has been an external director of the Company since August 2018. Since December 2017, Mr. Aks is the Chief Executive Officer of Antenna International, a story-maker and creative technology company devoted to cultural, iconic site and commercial attractions. Prior to Antenna, from December 2010 to December 2017 he was the owner of C3 Multimedia LLC., a consulting firm in the fields of information, education K-16 and media and during his term with C3 was, inter-alia, the Acting Chief Operating Officer for the Educational Records Bureau (ERB), a K-12 assessment organization serving private education and high performing public institutions (from March 2015 until December 2017). From January 2014 until December 2017, Mr. Aks was the Co-Founder of The EdTech Fund, an investment vehicle for seed capital investments in educational technologies. He also served as the Senior Vice President and Chief of Staff for McGraw-Hill Education (MHE) from September 2008 until November 2010 where he was responsible for information technology, public relations, strategy and business development, K-12 differentiated instruction pilots, and content management system development. From July 2007 until April 2008 he served as the Chief Operating Officer and Executive Vice President at The Greenspun Companies, where he had general management responsibility of the company's magazine and companion web site businesses. Prior to that from January 2006 to July 2007, he held positions with MTV Networks (MTVN) as a Senior Vice President of both Operations and Consumer Products. Prior to MTVN from August 1999 to June 2004, Mr. Ask served PRIMEDIA's Consumer Magazine Group as Chief Operating Officer, where he managed the Direct Response Advertising Group, Manufacturing, Production, Distribution, IT, Strategy, Business Development, Global Sourcing, and at times Circulation. He was also President of PRIMEDIA Consumer Magazine Internet Group during that term. Prior to joining PRIMEDIA, Mr. Aks was a partner with the Booz Allen Hamilton consulting firm where he specialized in business growth, operations strategy and restructuring in the media, education, telecommunications and consumer goods industries. Mr. Aks holds a BS in Manufacturing/Industrial Engineering and a B.A. in Business Administration from Rutgers University and earned an MBA from the Harvard University Graduate School of Business Administration, where he graduated with second-year honors.

Michael Vorhaus has been a director of the Company since April 2015. Starting December of 2018, Mr. Vorhaus has founded Vorhaus Advisors and is CEO of the firm. From 1994 to November 2018, he was in a variety of positions at of Frank N. Magid Associates, Inc., a research-based strategic consulting firm. From 1994 to 2008, he served as its Senior Vice President and Managing Director and from 2008 to 2018 he served as the President of Magid Advisor, a unit of Magid Associates. From 2013 to 2014, Mr. Vorhaus served as a director of Grow Mobile. In 1987, he founded Vorhaus Investments. Mr. Vorhaus holds a B.A. in Psychology from Wesleyan University and completed the Management Development Program at the University of California, Berkeley's Haas School of Business.

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

Tal Jacobson has been the General Manager of CodeFuel since November 2018. Tal has been an executive in the Israeli high-tech industry for over 20 years. Previously to joining Perion, Tal served as the Chief Revenue Officer and Chief Business Development Officer at SimilarWeb. He also founded Monotizer, which provided a technology for generating traffic to online retailers. Previously, Tal was the VP of Business at McCann Erickson as well as held the position of CEO at Watchitoo - a video collaboration platform. Tal was also the Director of Business Development at AOL as part of the IM division (ICQ).

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

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

B. COMPENSATION

The aggregate direct compensation we paid to our officers as a group (including our former officers, 11 persons) for the year ended December 31, 2018, was approximately $5.7 million, which included approximately $0.3 million that was set aside or accrued to provide for pension, retirement, severance or similar benefits. This amount includes bonuses paid to our officers pursuant to our executive bonus plan based on company performance measures, in accordance with our Compensation Policy for Directors and Officers. This amount does not include expenses we incurred for other payments, including dues for professional and business associations, business travel and other expenses, and other benefits commonly reimbursed or paid by companies in Israel.

The aggregate compensation we paid to our directors who are not officers for their services as directors as a group for the year ended December 31, 2018 was approximately $0.3 million. In addition, our directors are reimbursed for expenses incurred in order to attend board or committee meetings.

In the year ended December 31, 2018, we granted (i) options to purchase 283,667 ordinary shares to our officers, at a weighted average exercise price of $3.13 per share, and the latest expiration date for such options is October 2025. These options were granted under our Equity Incentive Plan, as amended, formerly known as the 2003 Israeli Share Option Plan (the "Incentive Plan").

In 2018, we paid each of our non-executive directors $50,000 per year, subject to adjustment for changes in the Israeli consumer price index and applicable changes in the Israeli regulations governing the compensation of external directors. Each of our non-executive directors also received, an annual grant of options to purchase 8,333 ordinary shares under the Incentive Plan. Each option is exercisable for a term of five years at an exercise price per share equal to the average stock market price of the 90 days prior to the annual meeting of shareholders on which such option was granted, as reported by the Nasdaq Stock Market. The options vest in three equal installments on each anniversary of date of grant. Following termination or expiration of the applicable director's service with the Company, provided that the termination or expiration is not for "cause" and is not a result of the director's resignation, the options would retain their original expiration dates and, with respect to each grant, the upcoming tranche of options that are scheduled to vest immediately subsequent to the termination date, if any, will automatically vest and become exercisable. All unvested options held by the director will automatically vest and become exercisable upon a change of control of the Company, which is defined for this purpose as (i) a merger, acquisition or reorganization of the Company with one or more other entities in which the Company is not the surviving entity, (ii) a sale of all or substantially all of the assets of the Company; (iii) a transaction or a series of related transactions as a result of which more than 50% of the outstanding shares or the voting rights of the Company are beneficially owned by one person or group (as defined in the SEC rules).

The table below reflects the compensation granted to our five most highly compensated office holders during or with respect to the year ended December 31, 2018. We refer to the five individuals for whom disclosure is provided herein as our "Covered Executives."

For purposes of the table below, "compensation" includes salary cost, bonuses, equity-based compensation, retirement or termination payments, benefits and perquisites such as car, phone and social benefits and any undertaking to provide such compensation. All amounts reported in the table are in terms of cost to the Company, as recognized in our financial statements for the year ended December 31, 2018, including the compensation paid to such Covered Executive following the end of the year in respect of services provided during the year. Each of the Covered Employees was covered by our D&O liability insurance policy and was entitled to indemnification and exculpation in accordance with applicable law and our articles of association. All numbers below are in US Dollars in thousands.

Name and Principal Position (1)	Salary Cost (2)	Bonus (3)	Equity-Based Compensation (4)	Total
Doron Gerstel, Chief Executive Officer	438	290	498	1,226
Michael Pallad, former President, Undertone	671	121	231	1,023
Mike Glover, former General Manager, CodeFuel Business Unit	440	350	133	923
Ran Cohen, Senior Vice President, Product	455	110	42	607
Miki Kolko, Chief Technology Officer	303	67	187	557

(1) Unless otherwise indicated herein, all Covered Executives are employed on a full-time (100%) basis.

(2) Salary cost includes the Covered Executive's gross salary plus payment of social benefits made by the Company on behalf of such Covered Executive. Such benefits may include, to the extent applicable to the Covered Executive, payments, contributions and/or allocations for savings funds (*e.g.,* Managers' Life Insurance Policy), education funds (referred to in Hebrew as "*keren hishtalmut*"), pension, severance, risk insurances (*e.g.,* life, or work disability insurance), payments for social security and tax gross-up payments, vacation, car, medical insurances and benefits, phone, convalescence or recreation pay and other benefits and perquisites consistent with the Company's policies.

(3) Annual bonuses granted to the Covered Executives based on formulas set forth in the annual compensation plan approved by the Board of Directors.

(4) Represents the equity-based compensation expenses recorded in our consolidated financial statements for the year ended December 31, 2018. Such numbers are based on the option grant date fair value in accordance with accounting guidance for equity-based compensation and does not necessarily reflect the cash proceeds to be received by the applicable officer upon the vesting and sale of the underlying shares. For a discussion of the assumptions used in reaching this valuation, see Note 2 to our Financial Statements.

Compensation Terms of our Chief Executive Officer

Doron Gerstel serves as our Chief Executive Officer from April 2017 and as a director of the Company since May 2018. His monthly base salary is NIS 95,000 (equivalent to approximately $25,350), and he is entitled for customary benefits (including those mandated by applicable law and/or generally provided to other executive officers of the Company), including managers' insurance or pension arrangement, disability insurance, severance pay (pursuant to Section 14 of the Severance Pay Law), educational savings fund, private health insurance, indemnification, liability insurance (including for the period of seven years following termination), convalescence pay, meal plan, cellular telephone and personal computer. Mr. Gerstel is not compensated for his role as director.

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

- No bonus will be payable if less than 75% of the EBITDA target is achieved;

- To the extent that 90% of a given target is achieved (but less than 100%), a reduced bonus in respect of such target will be payable based on a 1:2 ratio, i.e., a reduction of 2% per each shortfall of 1%. For example, if 95% of the EBITDA target is achieved and 100% of the revenue target is achieved, then 95% of the maximum bonus would be payable (90% in respect of the EBITDA target and 100% in respect of the revenue target); and

- To the extent that the achievement of one target is more than 100% and the other is less than 100% (but at least 90%), the bonus shall be increased for the over-achievement based on a 1:1 ratio, subject to the aforesaid maximum bonus. For example, if 95% of the EBITDA target is achieved and 105% (or more) of the revenue target is achieved, then 100% of the maximum bonus would be payable.

In addition, Mr. Gerstel was granted with two stock option grants under the Company's Incentive Plan: (i) option to purchase up to 387,278 ordinary shares at an exercise price per share of $4.98 (which was the approximate market price per ordinary shares on the Nasdaq Stock Market on the date of the employment agreement); and (ii) option to purchase up to 387,278 ordinary shares at an exercise price per share of $7.89 (together, the "Options").

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

Each grant constitutes approximately 1.5% of the outstanding ordinary shares as of March 10, 2019.

At the annual general meeting of our shareholders held on February 15, 2018, and as part of a cross-company repricing plan designed mainly to keep our competitive hiring position in the industry, the repricing of options granted to Mr. Gerstel was approved. The first tranche of 387,278 options was adjusted to have an exercise price per of $3.24 (which is equal to the weighted average price of our ordinary shares on Nasdaq in the last 90 days prior to the date of approval of the repricing plan by our board of directors) (the "Adjusted Exercise Price"), and the second tranche of 387,278 options was adjusted to have an exercise price per share equal to $4.23, which is 130% of the Adjusted Exercise Price.

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

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

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

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

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

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

At an extraordinary meeting of our shareholders scheduled to take place on April 11, 2019, the following changes to Mr. Gerstel's compensation are standing for a vote and approval of our shareholders:

(a) A time-limited increase of the base monthly salary by a gross monthly amount of NIS 36,270, following of which the gross monthly salary will be NIS 131,270. Subject to the approval of the shareholders, Mr. Gerstel's amendment of the base monthly salary will become effective as of January 15, 2019 and will continue for a period of one (1) year following the date of the shareholders meeting;

(b) An annual bonus of up to 12 monthly salaries (instead of 9 monthly salaries), subject to performance matrix to be approved by the Company's compensation committee and board of directors on an annual basis, while up to 25% of such annual bonus may be discretionary and not subject to measurable performance indexes; and

(c) A one-time grant of options to purchase 150,000 Ordinary Shares, with a 3-year vesting schedule (the options will vest on a quarterly basis in equal tranches over a three-year period), commencing on January 15, 2019 (in this section (c), the "Option"). The exercise price per share for the shares underlying the Option will be as follows: (i) the first 75,000 of shares underlying the Option will be exercised at a price per share equal to $2.87, which is the weighted average closing price of our ordinary shares on Nasdaq in the last 90 days prior to the date of approval of the grant by our board of directors on February 12, 2019, as reported by the Nasdaq Stock Market (the "Base PPS")**;** and (ii) the remaining 75,000 of shares underlying the Option will be exercised at a price per share equal to $3.30 which is a price15% higher than the Base PPS. The Option will be subject to the terms and conditions of our Equity Incentive Plan, as amended (in this section (c), the "Plan") and the terms of the option agreement to be issued to Mr. Gerstel pursuant to the Plan, which Mr. Gerstel will be required to sign as a condition to receiving the Option. The vesting schedule of the Option will fully accelerate in accordance of the acceleration provisions of the options previously granted to Mr. Gerstel (with change in the board event measured as of the date of the shareholders meeting).

C. BOARD PRACTICES

Corporate Governance Practices

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

Nasdaq Requirements

As required by the Nasdaq Listing Rules, a majority of our directors are "independent directors" as defined in the Nasdaq Listing Rules.

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

See Item "16.G – Corporate Governance" for exemptions that we have taken from certain Nasdaq Listing Rule requirements.

Israeli Companies Law

Board of Directors

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

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

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

As of March 10, 2019, our board of directors 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 directors" for the purpose of the Nasdaq Listing Rules. Other than our 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. The external directors are not assigned to a class and are elected in accordance with the Companies Law.

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

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

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

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

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

External Directors

Under the Companies Law, Israeli companies whose shares have been offered to the public in or outside of Israel are required to appoint at least two individuals to serve as external directors. Our external directors under the Companies Law are, Ms. Sarit Firon, whose initial three-year term commenced on January 6, 2017 and Mr. Daniel E. Aks, whose initial three-year term commenced on September 28, 2018.

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

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

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

Committees of the Board of Directors

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

Audit Committee

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

Nasdaq Requirements

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

Companies Law Requirements

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

Compensation Committee

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

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

Investment Committee

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

Nominating and Governance Committee

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

Internal Auditor

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

D. EMPLOYEES

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

	December 31,		
	2016	**2017**	**2018**
Cost of sales	87	94	76
Research and development	141	117	86
Selling and marketing	197	167	141
General and administration	110	86	60
Total	535	464	363

As of December 31, 2018, 129 of our employees were located in Israel, 184 of our employees were located in the United States and 50 employees were located in Europe.

In Israel we are subject to certain labor statutes and national labor court precedent rulings, as well as to some provisions of the collective bargaining agreements. These provisions of collective bargaining agreements apply to our Israeli employees by virtue of extension orders issued in accordance with relevant labor laws by the Israeli Ministry of Economy and Industry, and which apply such provisions under the extension orders to certain or all Israeli employees including our employees even though they are not directly part of a union that has signed a collective bargaining agreement. The laws and labor court rulings that apply to our employees principally concern, among others, 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, among others, the requirement for the length of the workday and the work-week, annual recuperation pay and commuting expenses, and payments to pension funds. As mentioned above, we are required to insure all of our employees by a comprehensive pension plan or a managers' insurance according to the terms and the rates detailed in the order. In addition, Israeli laws determine 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 benefits and terms of employment. We have never experienced a work stoppage, and we believe our relations with our employees are good.

Israeli law generally requires the payment of severance by employers upon the retirement or death of an employee or upon termination of employment by the employer or, in certain circumstances, by the employee. Most of our agreements with employees in Israel contain an arrangement made in accordance with Section 14 of the Severance Pay Law, 1963 ("Section 14"), where our contributions for severance pay are paid in lieu of any severance liability. Upon termination of employment, for any reason, and subject to contribution of the employee's entire monthly salary, and release of the policy to the employee, no additional severance payments are required to be made by us to the employee. Additionally, the related obligation and amounts deposited pursuant to such obligation are not stated on the balance sheet, as we are legally released from any obligation to employees once the deposit amounts have been paid. Our liability for severance pay to employees not under Section 14 is calculated pursuant to Israel's Severance Pay Law based on the employees' most recent monthly salary, multiplied by the number of years of their employment, or a portion thereof, less the amounts accumulated in the employees' severance fund. The severance liability with respect to employees that are not subject to Section 14 is partially covered under the monthly deposits into severance funds for the benefit of the employees and by an accrual. The deposited funds include profits (losses) accumulated up to the balance sheet date. As of December 31, 2018, our net accrued unfunded severance obligations totaled $115 thousand.

Furthermore, Israeli employees and employers are required to pay predetermined sums to the National Insurance Institute, which covers, amongst other benefits, payments for state retirement benefits and survivor benefits (similar to the United States Social Security Administration), as well as state unemployment benefits. These amounts also include payments for national health insurance. The payments to the National Insurance Institute can equal up to approximately 19.6% of wages subject to a cap if an employee's monthly wages exceed a specified amount, of which the employee contributes up to approximately 12% and the employer contributes approximately 7.6%.

E. SHARE OWNERSHIP

Security Ownership of Directors and Executive Officers

The following table sets forth information regarding the beneficial ownership of our ordinary shares as of March 10, 2019 by all of our directors and executive officers as a group and by each officer and director who beneficially owns 1% or more of our outstanding ordinary shares.

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

Except as indicated in the footnotes to this table, each officer and director in the table has sole voting and investment power for the shares shown as beneficially owned by them. Percentage ownership is based on 26,009,971 ordinary shares outstanding as of March 10, 2018.

Name	Number of Ordinary Shares Beneficially Owned	Percentage of Ordinary Shares Outstanding
Dror Erez (1)	1,558,546	6.0%
All directors and officers as a group (11 persons) (2)	2,104,360	8.1%

(1) Based upon information provided to us by Mr. Erez. Includes options to purchase 19,999 ordinary shares that are vested or will vest, within 60 days of March 10, 2019. Mr. Erez serves as a director of the Company.
(2) Includes options to purchase 565,813 ordinary shares, that are vested or will vest within 60 days of March 10, 2019.

Employee Benefit Plans

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

Under the Incentive Plan, as amended from time to time, we may grant to our directors, officers, employees, consultants, advisers, service providers and controlling shareholders options to purchase our ordinary shares, restricted shares and RSUs. As of December 31, 2018, a total of 3,961,472 ordinary shares were subject to the Incentive Plan. As of March 10, 2019, options to purchase a total of 3,554,628 ordinary shares were outstanding under our Incentive Plan, of which options to purchase a total of 1,592,117 ordinary shares were held by our directors and officers (11 persons) as a group. The outstanding options are exercisable at purchase prices which range from $2.25 to $14.67 per share. Any expired or cancelled options are available for reissuance under the Incentive Plan.

Our Israeli employees and directors may be granted awards under Section 102 ("Section 102") of the Israeli Income Tax Ordinance (the "Tax Ordinance"), which provides them with beneficial tax treatment, and non-employees (such as service providers, consultants and advisers) and controlling shareholders may only be granted awards under another section of the Tax Ordinance, which does not provide for similar tax benefits. To be eligible for tax benefits under Section 102, the securities must be issued through a trustee, and if held by the trustee for the minimum required period, the employees and directors are entitled to defer any taxable event with respect to the award until the earlier of (i) the transfer of securities from the trustee to the employee or director or (ii) the sale of securities to a third party. Our board of directors has resolved to elect the "Capital Gains Route" (under Section 102) for the grant of awards to Israeli grantees under the Incentive Plan. Based on such election, and subject to the fulfillment of the conditions of Section 102, under the Capital Gains Route, gains realized from the sale of shares issued pursuant to the Incentive Plan will generally be taxed at the capital gain rate of 25%, provided the trustee holds the securities for 24 months following the date of grant of the award. To the extent that the market price of the ordinary shares at the time of grant exceeds the exercise price of the award or if the conditions of Section 102 are not met, tax will be payable at the time of sale at the marginal income tax rate applicable to the employee or director (up to 50% in 2018). We are not entitled to recognize a deduction for Israeli tax purposes on the capital gain recognized by the award holder upon the sale of shares pursuant to Section 102. The voting rights of any shares held by the trustee under Section 102 remain with the trustee.

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

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

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

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. MAJOR SHAREHOLDERS

The following table sets forth information with respect to the beneficial ownership of our shares as of March 10, 2019, by each person or entity known by us to beneficially own 5% or more of our outstanding Ordinary Shares.

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 pursuant to an outstanding right within 60 days of a specified date are deemed to be outstanding and beneficially owned by the person holding the right 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.

For the purpose of calculating the percentage of shares beneficially owned by any shareholder, this table lists the applicable percentage ownership based on 26,009,971 Ordinary Shares issued and outstanding as of March 10, 2019 (such amount excludes 115,339 Ordinary Shares held by the Company).

Except as indicated in the footnotes to this table, to our knowledge, each shareholder in the table have voting and investment power for the shares shown as beneficially owned by such shareholder, except to the extent the power is shared by spouses under community property law. Our major shareholders do not have different voting rights than our other shareholders.

Name of Beneficial Owner	Shares Beneficially Owned	
	Number	Percentage
Benchmark Israel II, L.P.(1)	3,096,296	11.90%
Zack and Orli Rinat(2)	2,161,449	8.31%
EA2K Ltd.(3)	1,800,000	6.92%
Dror Erez(4)	1,538,547	5.92%
Ronen Shilo(5)	1,462,644	5.62%
J.P. Morgan Investment Management Inc.(6)	1,401,022	5.39%

(1) Based solely upon, and qualified in its entirety with reference to, a Schedule 13G/A filed with the SEC on February 11, 2019, by Benchmark Israel II, L.P. ("BI II") and affiliates. BCPI Partners II, L.P. ("BCPI-P"), the general partner of BI II, may be deemed to have sole power to vote and dispose of the 3,096,296 Ordinary Shares directly held by BI II. BCPI Corporation II ("BCPI-C"), the general partner of BCPI-P, may be deemed to have sole power to vote and dispose of the shares directly held by BI II. Michael A. Eisenberg and Arad Naveh, the directors of BCPI-C, may be deemed to have shared power to vote and dispose of the shares directly held by BI II. 94,294 Ordinary Shares are held in nominee form for the benefit of persons associated with BCPI-C. BCPI-P may be deemed to have sole power to vote and dispose of these shares, BCPI-C may be deemed to have sole power to vote and dispose of these shares and Messrs. Eisenberg and Naveh may be deemed to have shared power to vote and dispose of these shares. The Address of BI II is 2965 Woodside Road Woodside, California 94062s.

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

(3) Based solely upon, and qualified in its entirety with reference to, a Schedule 13G/A filed with the SEC on January 30, 2019, by EA2K Ltd. ("EA2K"). Baruch Erlich controls EA2K, and by reason of such control may be deemed to have shared power to vote and dispose of the 1,800,000 Ordinary Shares directly held by EA2K. The Address of each ofEA2K and Baruch Erlich is 12 Mevo Habustan St. Har Adar 90836, Israel.

(4) Based solely upon, and qualified in its entirety with reference to, a Schedule 13D/A filed with the SEC on February 20, 2019. Mr. Erez serves as a director of the Company. The Address of Mr. Erez is Dror Erez c/o Conduit Ltd., 2 Ilan Ramon St. Ness-Ziona 7403635, Israel.

(5) Based solely upon, and qualified in its entirety with reference to, a Schedule 13D/A filed with the SEC on February 20, 2019. The Address of Mr. Shilo is Ronen Shilo c/o Conduit Ltd., 2 Ilan Ramon St. Ness-Ziona 7403635, Israel.

(6) Based solely upon, and qualified in its entirety with reference to, a Schedule 13G/A filed with the SEC on December 11, 2017, by JPMIM, DGF, and Condor. Consists of 1,401,022 Ordinary Shares directly held by Project Condor LLC ("Condor"). PEG Digital Growth Fund L.P. ("DGF") owns 98.75% of the membership interests of Condor. As the holder of the majority of the membership interests of Condor, DGF manages Condor and has shared voting or dispositive power over the 1,401,022 Ordinary Shares held by Condor. J.P. Morgan Investment Management Inc. ("JPMIM") serves as investment advisor to DGF. The address for JPMIM, DGF and Condor is 320 Park Avenue, New York, New York 1002.

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

To our knowledge, as of March 10, 2019, we had 10 shareholders of record of which 9 (excluding the Depository Trust Company) were registered with addresses in the United States. These U.S. holders were, as of such date, the holders of record of approximately 5.18% of our outstanding shares. The number of record holders in the United States is not representative of the number of beneficial holders nor is it representative of where such beneficial holders are resident since many of these ordinary shares were held of record by brokers or other nominees.

B. RELATED PARTY TRANSACTIONS

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

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

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

Agreement with Conduit Shareholders

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

Indemnification Agreements

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

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

Employment and Consulting Agreements

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

C. INTERESTS OF EXPERTS AND COUNSEL

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

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

Legal Proceedings

On November 7, 2012, we entered into a Share Purchase Agreement with SweetIM Ltd., SweetIM Technologies Ltd., the shareholders of SweetIM and Nadav Goshen, as Shareholders' Agent, according to which we purchased 100% of the issued and outstanding shares of SweetIM Ltd. Under the terms of the Share Purchase Agreement, among other things, a third payment of up to $7.5 million in cash was due in May 2014, if certain milestones were met. The milestones are based on our revenues in the fiscal year of 2013 and the absence of certain changes in the industry in which we operate. We believe that that the terms of the Share Purchase Agreement require us to pay only $2.5 million with respect to the contingent payment, which we have paid. However, the Shareholders' Agent has demanded payment of an additional $5.0 million. We believe that the claim is without merit and we are defending against it vigorously. Until this dispute is resolved, we will maintain the $5.0 million liability in our financial statements that we recorded at the time that we entered into the Share Purchase Agreement. In April 2015, pursuant to the Share Purchase Agreement, an arbitration process with respect to this claim was commenced in Israel. Based on the August 2018 ruling of the arbitrator, the remaining balance of the Contingent Payment shall be paid to SweetIM's shareholders in 3 equal installments. As of December 31, 2018, the Company maintains a $1,667 liability in its financial statements, which was fully paid during January 2019.

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

Policy on Dividend Distribution

It is currently our policy not to distribute dividends.

B. SIGNIFICANT CHANGES

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

ITEM 9. THE OFFER AND LISTING

A. OFFER AND LISTING DETAILS

Our ordinary shares have been listed on the Nasdaq Stock Market since January 2006. Our ordinary shares commenced trading on the TASE on December 4, 2007. Our trading symbol on Nasdaq is "PERI" and on TASE is "PERION."

B. PLAN OF DISTRIBUTION

Not applicable.

C. MARKETS

See "—Listing Details" above.

D. SELLING SHAREHOLDERS

Not applicable.

E. DILUTION

Not applicable.

F. EXPENSES OF THE ISSUE

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. SHARE CAPITAL

Not applicable

B. MEMORANDUM AND ARTICLES OF ASSOCIATION

Registration Number and Purposes

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

Authorized Share Capital

Our authorized share capital is of NIS 1,300,000, divided into 43,333,333 ordinary shares, par value NIS 0.03 per share.

The Board of Directors

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

Dividend and Liquidation Rights

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

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

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

Voting, Shareholder Meetings and Resolutions

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

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

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

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

Most shareholders' resolutions, including resolutions to:

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

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

Notices

Under the Companies Law, shareholders' meetings generally require prior notice of at least 21 days, or 35 in the event that the issue(s) to be resolved is an issue subject to the Israeli proxy rules. Notwithstanding the foregoing, and unless otherwise required by the Companies Law, the Company is not required to send notice to its registered holders of any meeting of the shareholders.

Modification of Class Rights

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

Election of Directors

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

See "Item 6.C Board Practices" regarding our staggered board.

Transfer Agent and Registrar

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

Approval of Related Party Transactions

Office Holders

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

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

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

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

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

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

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

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

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

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

Shareholders

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

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

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

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

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

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

Anti-Takeover Provisions; Mergers and Acquisitions

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

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

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

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

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

Exculpation, Indemnification and Insurance of Directors and Officers

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

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

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

- any monetary liability whether imposed on him or her in favor of another person pursuant to a judgment, a settlement or an arbitrator's award approved by a court;

- reasonable litigation expenses, including attorneys' fees, incurred by him or her as a result of an investigation or proceedings instituted against him or her by an authority empowered to conduct an investigation or proceedings, which are concluded either (i) without the filing of an indictment against the office holder and without the levying of a monetary obligation in lieu of criminal proceedings upon the office holder, or (ii) without the filing of an indictment against the office holder but with levying a monetary obligation in substitute of such criminal proceedings upon the office holder for a crime that does not require proof of criminal intent;

- reasonable litigation expenses, including attorneys' fees, in proceedings instituted against him or her by the company, on the company's behalf or by a third-party, or in connection with criminal proceedings in which the office holder was acquitted, or as a result of a conviction for a crime that does not require proof of criminal intent, or in connection with an administrative enforcement proceeding or financial sanction instituted against him; and

- reasonable litigation expenses, including attorneys' fees, incurred by him or her as a result of an administrative enforcement proceeding instituted against him or her.

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

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

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

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

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

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

C. MATERIAL CONTRACTS

Search Services Agreement with Microsoft

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

Registration Rights Undertaking in connection with ClientConnect Acquisition

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

- Form F-3 Shelf Registration Rights. We were required to file a "shelf" registration statement on Form F-3, as soon as practicable following the filing of our 2013 annual report, to register the resale from time to time by the holders thereof whose resale of shares would otherwise be subject to volume limitations set forth in SEC Rule 144. The holders of an aggregate of approximately [15.4] million ordinary shares have requested to include such shares in such registration statement, including Ronen Shilo, Dror Erez, Benchmark Israel, Zack and Orli Rinat, Project Condor and Roy Gen. We undertook to use our commercially reasonable efforts to maintain the effectiveness of the registration statement until the earliest of (i) five years following effectiveness, (ii) the resale of all the shares covered thereby and (iii) with respect to any shareholder, the ability of such shareholder to sell all of its shares under SEC Rule 144 without any volume limitations. Accordingly, we filed a shelf registration statement on May 8, 2014, and it was declared effective on August 7, 2014. For a period of three years following the expiration of such registration statement, at the request of holders whose resale of shares would otherwise be subject to volume limitations under SEC Rule 144, we would be required to file additional shelf registration statements and maintain the effectiveness thereof until the disposition of all the shares covered thereby. Such shelf registration rights are limited to four requests during such three-year period.

- Piggyback Registration Rights. If we effect a registered offering of securities, the holders of registrable securities consisting of at least 3% of our outstanding share capital at the relevant time (or 2% in the case of W Capital Engage, L.P.) or a holder whose resale of registrable securities would otherwise be subject to volume limitations set forth in SEC Rule 144 will have the right to include its shares in the registration effected pursuant to such offering. The number of piggyback registrations is unlimited.

- All reasonable expenses incurred in connection with any such registrations, other than underwriting discounts and commissions, will be borne by us. We are subject to customary indemnification undertakings with respect to any registration effected pursuant to the Registration Rights Undertaking.

Undertone Merger Agreement

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

Undertone Secured Credit Agreement

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

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

In December 2018 the outstanding balance under the credit agreement was fully repaid.

Bank Mizrahi credit facility

On May 10, 2017, ClientConnect executed a credit facility with Mizrahi Tefahot Bank Ltd. ("Bank Mizrahi"), an Israeli bank, pursuant to which ClientConnect was permitted to borrow up to $17.5 million. This facility was repaid in full from the proceeds of the new Bank Mizrahi facility.

On December 17, 2018, ClientConnect executed a new loan facility with Bank Mizrahi in the amount of $25 million. Proceeds of the loan facility were applied to the refinancing of existing debt of ClientConnect with Bank Mizrahi as well as existing debt of Undertone with SunTrust Bank.

Principal on the loan is payable in twelve equal quarterly instalments beginning in March 2019. Interest on the loan at the rate of three-month LIBOR plus 5.7% per annum is payable quarterly. The credit facility is scheduled to mature in December 2021.

The credit facility is secured by liens on the assets ClientConnect of and Undertone and is guaranteed by Perion and Undertone. Each such guarantee is limited in amount to $33 million. Financial covenants for the loan facility are tested at the level of Perion on a consolidated basis.

The major financial covenants under the Bank Mizrahi credit facility are as follows:

- shareholders' equity of at least $120 million at the end of each quarter (at least $80 million after repayment in full of the Bonds);
- ratio of net financial indebtedness to twelve-month EBITDA of not more than 2.5 at the end of each quarter (less than 2.25 after repayment in full of the Bonds);
- twelve-month EBITDA at the end of each quarter of not less than 40% of original aggregate principal amount of the bonds (not applicable after repayment in full of the Bonds); and
- maintenance at all times of cash and cash equivalents in an amount equal to the lesser of (i) $10 million and (ii) the amount of the following payment of principal and interest.

As of December 31, 2018, the balance of the loan was $25.0 million out of which $16.7 million was classified as long-term debt and $8.3 million as current maturities.

As of December 31, 2018, we were in compliance with all of the foregoing covenants.

D. EXCHANGE CONTROLS

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

E. TAXATION

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

ISRAELI TAXATION

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

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

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

General Corporate Tax Structure in Israel

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

Foreign Currency Regulations

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

Law for the Encouragement of Capital Investments, 1959

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

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

We elected "Preferred Enterprise" status commencing in 2011. We believe that our Israeli subsidiary qualified as a "Preferred Technological Enterprise" in 2017 and 2018 and was subject to a lower tax rate of 12% Amendment 73 to the Law, as described below.

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

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

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

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

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

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

New Tax benefits under Amendment 73 that became effective on January 1, 2017.

Amendment 73 was enacted as part of the Economic Efficiency Law that was published on December 29, 2016, and was effective as of January 1, 2017. Amendment 73 provides new tax benefits for two types of "Technology Enterprises", as described below, and is in addition to the other existing tax beneficial programs under the Investment Law.

Amendment 73 provides that a technology company satisfying certain conditions will qualify as a "Preferred Technology Enterprise" and will thereby enjoy a reduced corporate tax rate of 12% on income that qualifies as "Preferred Technology Income," as defined in the Investment Law. The tax rate is further reduced to 7.5% for a Preferred Technology Enterprise located in development zone A. In addition, a Preferred Technology Company will enjoy a reduced corporate tax rate of 12% on capital gain derived from the sale of certain "Benefitted Intangible Assets" (as defined in the Investment Law) to a related foreign company if the Benefitted Intangible Assets were acquired from a foreign company on or after January 1, 2017 for at least NIS 200 million, and the sale receives prior approval from the National Authority for Technological Innovation (previously known as the Israeli Office of the Chief Scientist), to which we refer as IIA.

Amendment 73 further provides that a technology company satisfying certain conditions will qualify as a "Special Preferred Technology Enterprise" and will thereby enjoy a reduced corporate tax rate of 6% on "Preferred Technology Income" regardless of the company's geographic location within Israel. In addition, a Special Preferred Technology Enterprise will enjoy a reduced corporate tax rate of 6% on capital gain derived from the sale of certain "Benefitted Intangible Assets" to a related foreign company if the Benefitted Intangible Assets were either developed by the Special Preferred Technology Enterprise or acquired from a foreign company on or after January 1, 2017, and the sale received prior approval from NATI. A Special Preferred Technology Enterprise that acquires Benefitted Intangible Assets from a foreign company for more than NIS 500 million will be eligible for these benefits for at least ten years, subject to certain approvals as specified in the Investment Law.

Dividends distributed by a Preferred Technology Enterprise or a Special Preferred Technology Enterprise, paid out of Preferred Technology Income, are generally subject to withholding tax at source at the rate of 20% or such lower rate as may be provided in an applicable tax treaty (subject to the receipt in advance of a valid certificate from the Israel Tax Authority allowing for a reduced tax rate). However, if such dividends are paid to an Israeli company, no tax is required to be withheld. If such dividends are distributed to a foreign company and other conditions are met, the withholding tax rate will be 4% (or a lower rate under a tax treaty, if applicable, subject to the receipt in advance of a valid certificate from the Israel Tax Authority allowing for a reduced tax rate).

We believe that our Israeli subsidiary qualifies as a "Preferred Technological Enterprise" in 2017 and 2018 and was subject to a lower tax rate of 12% according to Amendment 73 to the Law, as described above.

Law for the Encouragement of Industry (Taxes), 1969

We believe that we currently qualify as an "Industrial Company" within the meaning of the Law for the Encouragement of Industry (Taxes), 1969, or the Industry Encouragement Law. The Industry Encouragement Law defines "Industrial Company" as a company resident of Israel which was incorporated in Israel, of which 90% or more of its income in any tax year, other than of income from defense loans, capital gains, interest and dividends, is derived from an "Industrial Enterprise" owned by it and located in Israel or in the "Area", in accordance with the definition in the section 3a of the Ordinance. An "Industrial Enterprise" is defined as an enterprise whose major activity in a given tax year is industrial production.

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

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

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

Transfer Pricing

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

Taxation of our Shareholders

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

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

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

A substantial shareholder will be subject to tax at a rate of 30% in respect of real capital gains derived from the sale of shares (that were purchased after January 1, 2012, whether listed on a stock exchange or not) issued by a company in which he or she is a substantial shareholder at the time of sale or at any time during the preceding 12 months period.

Israeli corporations are generally subject to the corporate tax rate (23% in 2018 and thereafter) on capital gains derived from the sale of shares.

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

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

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

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

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

Excess Tax. Individuals who are subject to tax in Israel, whether as an Israeli resident or a non-Israeli resident, are also subject to an additional tax at a rate of 3% on annual taxable income exceeding 640,000 in 2017 and NIS 641,880 in 2018, which amount is linked to the Israeli consumer price index, including, but not limited to, dividends, interest and capital gain.

U.S. FEDERAL INCOME TAX CONSIDERATIONS

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

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

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

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

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

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

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

Distributions Paid on the Ordinary Shares

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

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

(a) the stock of that corporation with respect to which the dividends are paid is readily tradable on an established securities market in the United States, or

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

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

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

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

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

Disposition of Ordinary Shares

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

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

Net Investment Income Tax

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

Passive Foreign Investment Company Considerations

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

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

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

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

Based on our income, assets, activities and market capitalization, we do not believe that we were a PFIC for the taxable year ended December 31, 2018 for U.S. federal income tax purposes. Our belief that we were not a PFIC for the 2018 taxable year is based on our estimate of the fair market value of our assets, including our intangible assets and goodwill, which are reflected in our financial statements under U.S. GAAP. In calculating the value of our assets, we value our total assets, in part, based on our total market capitalization. We believe this valuation approach is reasonable. However, there can be no assurances that the IRS could not successfully challenge our valuations or methods, which could result in our classification as a PFIC. While we intend to manage our business so as to avoid PFIC status, to the extent consistent with our other business goals, we cannot predict whether our business plans will allow us to avoid PFIC status or whether our business plans will change in a manner that affects our PFIC status determination. In addition, because the market price of our ordinary shares is likely to fluctuate and because that market price may affect the determination of whether we will be considered a PFIC, we cannot be certain that we will not be a PFIC in 2019 or become a PFIC in any other future taxable year.

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

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

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

- the item is effectively connected with the conduct by the Non-U.S. Holder of a trade or business in the United States and (i) in the case of a resident of a country which has a treaty with the United States, the item is attributable to a permanent establishment, or (ii) in the case of an individual, the item is attributable to a fixed place of business in the United States; or

- the Non-U.S. Holder is an individual who holds the ordinary shares as a capital asset and is present in the United States for 183 days or more in the taxable year of the disposition, and certain other conditions are met.

Information Reporting and Backup Withholding

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

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

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

F. DIVIDENDS AND PAYING AGENTS

Not applicable.

G. STATEMENT BY EXPERTS

Not applicable.

H. DOCUMENTS ON DISPLAY

We are subject to the informational requirements of the Exchange Act that are applicable to foreign private issuers, and under those requirements file reports with the SEC. Those other reports or other information may be inspected without charge at the locations described above. As a foreign private issuer, we are exempt from the rules under the Exchange Act related to the furnishing and content of proxy statements, and our officers, directors and principal shareholders will be exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required under the Exchange Act to file annual, quarterly and current reports and financial statements with the SEC as frequently or as promptly as United States companies whose securities are registered under the Exchange Act. However, we will file with the SEC, within 120 days after the end of each subsequent fiscal year, or such applicable time as required by the SEC, an annual report on Form 20-F containing financial statements audited by an independent registered public accounting firm, and will submit to the SEC reports on Form 6-K containing unaudited quarterly financial information.

Our filings with the SEC are also available to the public through the SEC's website at http://www.sec.gov. This site contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC. The information on that website is not part of this annual report and is not incorporated by reference herein.

I. SUBSIDIARY INFORMATION

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Exchange Rate Risk. A portion of our revenues and expenses are denominated in foreign currencies. As a result, numerous balances are denominated or linked to these currencies. Foreign currency related fluctuations resulted in $0.8 million net losses in 2016, $0.2 million net gains in 2017 and $1.0 million net gains in 2018, respectively. These gains are included in financial expenses, net, as presented in our statements of income.

As of December 31, 2018, 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	96,510	2,773	5,509	103,892
Long-term assets	4,978	63	317	5,357
Current liabilities	(61,840)	(11,354)	(3,920)	(77,114)
Long-term liabilities	(20,809)	(8,507)	(1,235)	(30,552)
Total	17,939	(17,025)	670	1,584

The fair value of the outstanding derivative instruments and the notional amount of the designed and not designed as hedging as of December 31, 2018 were as follows:

	Notional Amount	Fair Value
	In thousands of U.S. dollars	
Cross currency SWAP	15,313	860
Zero-cost collar contracts to hedge payroll expenses	563	(11)

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 $0.1 million.

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

	Year Ended December 31,		
	2016	**2017**	**2018**
Average rate for period	3.840	3.599	3.597
Rate at year-end	3.845	3.467	3.748

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

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

None.

ITEM 15. CONTROLS AND PROCEDURES

(a) Disclosure controls and procedures

Our interim chief executive officer and chief financial officer, after evaluating the effectiveness of our disclosure controls and procedures as of December 31, 2018, have concluded that, as of such date, our disclosure controls and procedures were effective and ensured that information required to be disclosed by us in reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our interim chief executive officer and chief financial officer, to allow timely decisions regarding required disclosure and is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms.

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

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting and has assessed the effectiveness of our internal control over financial reporting as of December 31, 2018. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in "Internal Control – Integrated Framework" (2013 framework). Our management has concluded, based on its assessment, that our internal control over financial reporting was effective as of December 31, 2018.

(c) Attestation Report of the Registered Public Accounting Firm

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

(d) Changes in internal control over financial reporting

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

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has determined that Ms. Sarit Firon, who is an independent director (as defined in the Nasdaq Listing Rules) and serves as our chairperson of the 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 business conduct and ethics (which was amended in February 2017) applicable to all of our directors, officers and employees as required by the Nasdaq Listing Rules, which also complies with the definition of a "code of ethics" set out in Section 406(c) of the Sarbanes-Oxley Act of 2002. A copy of the code of ethics can be found on our website at: http://www.perion.com/governance-documents. We granted no waivers under our code of business conduct and ethics in 2018.

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):

	2017	2018
Audit Fees	$ 707	$ 480
Tax Fees	111	35
Audit Related fees	53	18
Total	$ 871	$ 533

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

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

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

All other fees principally include advisory services.

Our audit committee provides assistance to our board of directors in fulfilling its legal and fiduciary obligations in matters involving our accounting, auditing, financial reporting, internal control and legal compliance functions by pre-approving the services performed by our independent accountants and reviewing their reports regarding our accounting practices and systems of internal control over financial reporting. Our audit committee also oversees the audit efforts of our independent accountants and takes those actions that it deems necessary to satisfy itself that the accountants are independent of management. Our audit committee has authorized all auditing and non-auditing services provided by our independent accountants during 2017 and 2018 and the fees paid for such services.

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

None.

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

Not applicable.

ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

Not applicable.

ITEM 16G. CORPORATE GOVERNANCE

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

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

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

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

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

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

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

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

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

PART III

ITEM 17. FINANCIAL STATEMENTS

Not applicable.

ITEM 18. FINANCIAL STATEMENTS

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

PERION NETWORK LTD. AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2018

IN U.S. DOLLARS

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Kost Forer Gabbay & Kasierer
144 Menachem Begin Road, Building A,
Tel-Aviv 6492102, Israel

Tel: +972-3-6232525
Fax: +972-3-5622555
ey.com

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of directors of Perion Network Ltd.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Perion Network Ltd. and subsidiaries ("the Company") as of December 31, 2018 and 2017, 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, 2018, and the related notes (collectively referred to as the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 19, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

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

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

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

We have served as the Company‘s auditor since 2004.
Tel-Aviv, Israel
March 19, 2019

Kost Forer Gabbay & Kasierer
144 Menachem Begin Road, Building A,
Tel-Aviv 6492102, Israel

Tel: +972-3-6232525
Fax: +972-3-5622555
ey.com

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of Perion Network Ltd.

Opinion on Internal Control over Financial Reporting

We have audited Perion Network Ltd. and subsidiaries' ("the Company") internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), (the COSO criteria). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2018 and 2017, 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, 2018, and the related notes, and our report dated March 19, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

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

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

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

Kost Forer Gabbay & Kasierer
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Tel-Aviv 6492102, Israel
Tel: +972-3-6232525
Fax: +972-3-5622555
ey.com

Definition and Limitations of Internal Control Over Financial Reporting

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

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

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

Tel-Aviv, Israel
March 19, 2019

CONSOLIDATED BALANCE SHEETS

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

	December 31,	
	2017	**2018**
Assets		
Current Assets:		
Cash and cash equivalents	$ 31,567	$ 39,109
Short-term bank deposits	5,913	4,000
Accounts receivable (net of allowance for doubtful debt of $609 and $607 at December 31, 2017 and 2018, respectively)	62,830	55,557
Prepaid expenses and other current assets	13,955	5,227
Total Current Assets	**114,265**	**103,893**
Property and equipment, net	17,476	15,649
Intangible assets, net	11,309	6,496
Goodwill	125,051	125,051
Deferred taxes	4,798	4,414
Other assets	1,128	943
Total Assets	**$ 274,027**	**$ 256,446**
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable	$ 39,180	$ 38,208
Accrued expenses and other liabilities	17,784	17,240
Short-term loans and current maturities of long-term and convertible debt	13,989	16,059
Deferred revenues	5,271	3,794
Payment obligation related to acquisitions	5,146	1,813
Total Current Liabilities	**81,370**	**77,114**
Long-Term Liabilities:		
Long-term debt, net of current maturities	30,026	16,667
Convertible debt, net of current maturities	16,693	7,726
Other long-term liabilities	7,606	6,158
Total Liabilities	**135,695**	**107,665**
Commitments and Contingencies		
Shareholders' Equity:		
Ordinary shares of ILS 0.03 par value - Authorized: 40,000,000 and 43,333,333 shares at December 31, 2017 and 2018, respectively; Issued: 25,965,360 and 25,965,527 shares at December 31, 2017 and 2018, respectively; Outstanding: 25,850,021 and 25,850,188 shares at December 31, 2017 and 2018, respectively	211	211
Additional paid-in capital	236,975	239,693
Treasury shares at cost (115,339 shares at December 31, 2017 and 2018)	(1,002)	(1,002)
Accumulated other comprehensive income	532	142
Accumulated deficit	(98,384)	(90,263)
Total Shareholders' Equity	**138,332**	**148,781**
Total Liabilities and Shareholders' Equity	**$ 274,027**	**$ 256,446**

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

CONSOLIDATED STATEMENTS OF INCOME

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

	Year ended December 31,		
	2016	**2017**	**2018**
Revenues:			
Advertising	$ 140,111	$ 134,481	$ 125,977
Search and other	172,683	139,505	126,868
Total Revenues	**312,794**	**273,986**	**252,845**
Costs and Expenses:			
Cost of revenues	25,924	24,659	23,757
Customer acquisition costs and media buy	140,210	130,885	128,351
Research and development	25,221	17,189	18,884
Selling and marketing	54,559	52,742	38,918
General and administrative	28,827	21,911	16,450
Depreciation and amortization	25,977	16,591	9,719
Impairment, loss of goodwill and intangibles	-	85,667	-
Restructuring charges	728	-	2,075
Total Costs and Expenses	**301,446**	**349,644**	**238,154**
Income (Loss) from Operations	**11,348**	**(75,658)**	**14,691**
Financial expenses, net	8,288	5,922	3,794
Income (Loss) before Taxes on Income	**3,060**	**(81,580)**	**10,897**
Taxes on income (benefit)	212	(8,826)	2,776
Net Income (Loss) from Continuing Operations	**2,848**	**(72,754)**	**8,121**
Net loss from discontinued operations	2,647	-	-
Net Income (Loss)	**$ 201**	**$ (72,754)**	**$ 8,121**
Net Earnings (Loss) per Share - Basic:			
Continuing operations	$ 0.11	$ (2.81)	$ 0.31
Discontinued operations	$ (0.10)	$ -	$ -
Net income (Loss)	**$ 0.01**	**$ (2.81)**	**$ 0.31**
Net Earnings (Loss) per Share – Diluted:			
Continuing operations	$ 0.11	$ (2.81)	$ 0.31
Discontinued operations	$ (0.10)	$ -	$ -
Net income (Loss)	**$ 0.01**	**$ (2.81)**	**$ 0.31**
Weighted average number of shares – Basic:			
Continuing and Discontinued operations	25,520,151	25,849,724	25,850,067
Weighted average number of shares – Diluted:			
Continuing and Discontinued operations	25,557,934	25,849,724	25,855,225

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,		
	2016	**2017**	**2018**
Net income (loss)	**$ 201**	**$ (72,754)**	**$ 8,121**
Other comprehensive income (loss):			
Change in foreign currency translation adjustment	521	717	(167)
Cash Flow Hedge:			
Unrealized gain (loss) from cash flow hedges	175	605	(429)
Less: reclassification adjustment for net gain (loss) included in net income (loss)	(167)	(525)	206
Net change	8	80	(223)
Other comprehensive income (loss)	529	797	(390)
Comprehensive income (loss)	**$ 730**	**$ (71,957)**	**$ 7,731**

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

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

	Common shares		Additional paid-in capital	Accumulated Other Comprehensive income (loss)	Retained earnings (Accumulated deficit)	Treasury shares	Total shareholders' equity
	Number of Shares	$	$	$	$	$	$
Balance as of December 31, 2015	**25,270,495**	**206**	**227,258**	**(794)**	**(25,831)**	**(1,002)**	**199,837**
Issuance of shares related to acquisitions	96,993	1	674	-	-	-	675
Issuance of shares related to price adjustment of private placement	260,993	2	(2)	-	-	-	-
Share-based compensation	-	-	6,900	-	-	-	6,900
Exercise of share options and vesting of restricted share units	112,540	1	1	-	-	-	2
Other comprehensive income	-	-	-	529	-	-	529
Net income	-	-	-	-	201	-	201
Balance as of December 31, 2016	**25,741,021**	**210**	**234,831**	**(265)**	**(25,630)**	**(1,002)**	**208,144**
Share-based compensation	-	-	2,144	-	-	-	2,144
Exercise of share options and vesting of restricted share units	109,000	1	-	-	-	-	1
Other comprehensive income	-	-	-	797	-	-	797
Net income (loss)	-	-	-	-	(72,754)	-	(72,754)
Balance as of December 31, 2017	**25,850,021**	**211**	**236,975**	**532**	**(98,384)**	**(1,002)**	**138,332**
Share-based compensation	-	-	2,718	-	-	-	2,718
Exercise of share options and vesting of restricted share units	167	-	*)	-	-	-	*)
Other comprehensive income (loss)	-	-	-	(390)	-	-	(390)
Net income	-	-	-	-	8,121	-	8,121
Balance as of December 31, 2018	**25,850,188**	**211**	**239,693**	**142**	**(90,263)**	**(1,002)**	**148,781**

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

*) Less than $1

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2016	**2017**	**2018**
Operating activities:			
Net income (loss)	$ 201	$ (72,754)	$ 8,121
Loss from discontinued operations, net	(2,647)	-	-
Net income (loss) from continuing operations	**2,848**	**(72,754)**	**8,121**
Adjustments required to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	25,977	16,591	9,719
Impairment of intangible assets and goodwill	-	85,667	-
Restructuring costs related to impairment of property and equipment	254	-	462
Share-based compensation expense	6,844	2,112	2,718
Foreign currency translation	980	83	3
Accretion of payment obligation related to acquisition	320	43	-
Accrued interest, net	406	475	1,005
Deferred taxes, net	(3,268)	(8,877)	335
Accrued severance pay, net	214	801	(783)
Change in payment obligation related to acquisitions	983	-	-
Fair value revaluation - convertible debt	1,350	3,785	(1,585)
Loss from sale of property and equipment	149	-	-
Net changes in operating assets and liabilities:			
Accounts receivable, net	(5,333)	8,888	7,423
Prepaid expenses and other current assets	8,613	(3,241)	9,451
Accounts payable	(1,702)	1,106	(1,066)
Accrued expenses and other liabilities	(2,486)	1,429	(1,524)
Deferred revenues	(2,365)	(95)	(1,478)
Net cash provided by continuing operating activities	33,784	36,013	32,801
Net cash used in discontinued operating activities	(3,329)	-	-
Net cash provided by operating activities	**$ 30,455**	**$ 36,013**	**$ 32,801**
Investing activities:			
Purchases of property and equipment	$ (1,504)	$ (1,606)	$ (2,038)
Proceeds from sale of property and equipment	151	10	59
Capitalization of development costs	(4,591)	(5,756)	(1,756)
Short-term deposits, net	34,028	2,501	1,913
Net cash provided by (used in) investing activities	**$ 28,084**	**$ (4,851)**	**$ (1,822)**
Financing activities:			
Exercise of share options and restricted share units	$ 2	$ 1	$ -
Payments made in connection with acquisition	(29,537)	(2,551)	(3,333)
Proceeds from short-term loans	40,000	-	-
Proceeds from long-term loans	-	5,000	25,000
Repayment of short-term loans	(46,000)	(7,000)	-
Repayment of convertible debt	(7,620)	(7,901)	(8,167)
Repayment of long-term loans	(9,452)	(11,389)	(36,509)
Net cash used in continuing financing activities	**$ (52,607)**	**$ (23,840)**	**$ (23,009)**
Effect of exchange rate changes on cash and cash equivalents	(136)	287	78
Net increase in cash and cash equivalents and restricted cash	**$ 9,125**	**$ 7,609**	**$ 8,048**
Decrease in cash and cash equivalents and restricted cash- discontinued activities	(3,329)	-	
Cash and cash equivalents and restricted cash at beginning of year	19,350	25,146	32,755
Cash and cash equivalents and restricted cash at end of year	**$ 25,146**	**$ 32,755**	**$ 40,803**

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		
	2016	**2017**	**2018**
Reconciliation of cash, cash equivalents, and restricted cash to the consolidated balance sheet			
Cash and cash equivalents	**$ 23,962**	**$ 31,567**	**$ 39,109**
Restricted cash included in Long-term interest-bearing bank deposits	1,184	1,188	1,694
Total cash, cash equivalents, and restricted cash	**$ 25,146**	**$ 32,755**	**$ 40,803**
Supplemental Disclosure of Cash Flow Activities:			
Cash paid during the year for:			
Income taxes	$ 3,976	$ 2,702	$ 1,256
Interest	$ 5,678	$ 4,619	$ 3,567
Non-cash investing and financing activities:			
Issuance of shares in connection with acquisitions	$ 673	$ -	$ -
Issuance of shares in private placement	$ 2	$ -	$ -
Share-based compensation capitalized as part of capitalization of software development costs	$ 14	$ 31	$ -
Purchase of property and equipment on credit	$ 322	$ -	$ 1

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

NOTE 1: GENERAL

a. Perion Network Ltd. ("Perion") and its wholly-owned subsidiaries (collectively referred to as the "Company"), is a global technology company that delivers advertising solutions to brands and publishers. Perion is committed to providing data-driven execution, from high-impact ad formats to branded search and a unified social and mobile programmatic platform.

b. In March 2016, the Company decided to discontinue the operations of the mobile self-serve side of the business and sell the mobile engagement business. Certain parts of the mobile marketing platform were redeployed so that it no longer functions as an independent business. In August 2016, the Company completed the sale of the mobile engagement business. Accordingly, the statements of income and statements of cash flows, related to the mobile self-serve and mobile engage operations are classified as discontinued operations for all periods presented.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

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

Use of estimates

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

Financial statements in U.S. dollars

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

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

Cash and cash equivalents and short-term deposits

The Company considers all short-term, highly liquid and unrestricted cash balances, with stated maturities of three months or less from date of purchase, as cash equivalents. Short-term deposits are bank deposits with maturities of more than three months but less than one year. The short-term deposits as of December 31, 2017 and 2018 are denominated primarily in USD and bear interest at an average annual rate of 1.59% and 3.00%, respectively.

Restricted cash

Restricted cash is comprised primarily of security deposits that are held to secure the Company's hedging activity, lease obligations and certain letters of credit associated with lease obligations. Restricted cash in the amount of $1,188 and $1,694, as of December 31, 2017 and 2018, respectively, are included under prepaid expenses and other current assets.

The Company adopted ASU 2016-18 "Statement of Cash Flows: Restricted Cash", starting January 1, 2018 in accordance with the retrospective transition method. According to the ASU amounts generally described as restricted cash should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flow.

Accounts receivable and allowance for doubtful accounts

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

Property and equipment

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

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

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

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

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

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

In 2017, the Company recorded impairment charges of $19,981, with respect to intangible assets subject to amortization. No such impairment charges were recorded in 2018.

Goodwill

Goodwill reflects the excess of the purchase price of business acquired over the fair value of net assets acquired. Goodwill is not amortized but instead is tested for impairment, in accordance with ASC 350, "Intangibles – Goodwill and Other", at the reporting unit level, at least annually at December 31 each year, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Following the early adoption of ASU 2017-04, "Simplifying the Test for Goodwill Impairment" by the Company in January 2017, any excess of the carrying amount of the reporting unit over its fair value is recognized as an impairment loss, and the carrying value of goodwill is written down to fair value.

Based on the goodwill assessment for the Undertone reporting unit in 2017, the Company determined that the carrying amount of the Undertone reporting unit exceeds its fair value and recorded an impairment charge of $65,686 to its Goodwill. No such impairment charges were recorded in 2018 and in 2016.

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

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

Deferred Financing Costs

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

Revenue recognition

The Company applies the provisions of Accounting Standards Codification 606, Revenue from Contracts with Customers ("ASC 606" or "Topic 606") The Company adopted the provisions of ASC 606 effective January 1, 2018 using the modified retrospective application method for all uncompleted contracts as of that date. The adoption of ASC 606 did not have a material impact on the Company's consolidated financial statements. In addition, the adoption of ASC 606 had no impact on the Company's accounts receivable and deferred revenues balance as of December 31, 2018 or on the Company's revenues, cost of sales or its operating expenses during 2018, compared to ASC 605.

The Company applies the practical expedient for incremental costs of obtaining contracts when the associated revenues is recognized over less than one year.

The Company generates revenues primarily from two major sources:

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

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

For more disaggregated information of revenues refer to Note 18.

The Company general payments terms are less than one year. Therefore, no finance component is recognized.

The Company evaluates whether Search and Advertising Revenues should be presented on a gross basis, which is the amount that a customer pays for the service, or on a net basis, which is the amount of the customer payment less amounts the Company pays to publishers. In making that evaluation, the Company considers whether it controls the promised good or service before transferring that good or service to the customer. The Company considers indicators such as whether the Company is the primary obligor in the arrangement and assumes risks and rewards as a principal or an agent, including the credit risk, whether the Company has latitude in establishing prices and selecting its suppliers and whether it changes the products or performs part of the service. The evaluation of these factors is subject to significant judgment and subjectivity. Generally, in cases in which the Company is primarily obligated in a transaction, is subject to risk, involved in the determination of the product (or the service) specifications, separately negotiates each revenue service agreement or publisher agreement and can have several additional indicators, revenue is recorded on a gross basis.

Remaining performance obligations (RPOs) represent amounts collected on contracted revenues that had not yet been recognized. As of December 31, 2018, the aggregate amount of the RPOs was $3,794. The Company expects the RPO to be recognized as revenues within the next twelve months.

Contract balances are presented separately on the consolidated balance sheets as either Accounts receivable or deferred revenues. The Company does not have contract assets.

Accounts receivable includes amounts billed and currently due from customers.

Deferred revenues are recorded when payments are received from customers in advance of the Company's rendering of services.

Revenues recognized during 2018 from amounts included within the deferred revenues balance at the beginning of the period amounted to $5,270.

Cost of revenues

Cost of revenues consists primarily of expenses associated with the operation of the Company’s data centers, including depreciation, labor, energy and bandwidth costs, as well as content acquisition costs, and customer support. The direct cost relating to search revenues is immaterial.

Customer acquisition costs and media buy

Customer acquisition costs and media buy consist of amounts paid to publishers who distribute the Company’s search applications and services and other products as well as the costs of advertising inventory incurred to deliver ads. Customer acquisition costs are primarily based on revenue share arrangements with minimum guaranty and are charged as incurred.

Research and development costs

Research and development costs are charged to the statement of income as incurred, except for certain costs relating to internally developed software, which are capitalized.

The Company capitalizes certain internal and external software development costs, consisting primarily of direct labor associated with creating the internally developed software. Software development projects generally include three stages: (i) the preliminary project stage (all costs expensed as incurred); (ii) the application development stage (costs are capitalized) and (iii) the post implementation/operation stage (all costs expensed as incurred). The costs capitalized in the application development stage primarily include the costs of designing the application, coding and testing of the system. Capitalized costs are amortized using the straight-line method over the estimated useful life of the software, generally three years, once it is ready for its intended use. The Company believes that the straight-line recognition method best approximates the manner in which the expected benefit will be derived. Management evaluates the useful lives of these assets on an annual basis and tests for impairment whenever events or changes in circumstances occur that could impact the recoverability of these assets.

Capitalized software development costs, net of accumulated amortization, of $9,195 and $8,212 are included in property and equipment in the consolidated balance sheets as of December 31, 2017 and 2018, respectively (see Note 5).

Income taxes

The Company accounts for income taxes in accordance with ASC 740, "Income Taxes". This Statement prescribes the use of the liability method, whereby deferred tax asset and liability account balances are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. To the extent necessary, the Company provides a valuation allowance to reduce deferred tax assets to their estimated realizable value.

The Company accounts for uncertain tax positions in accordance with ASC 740, which contains a two-step approach for recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position taken or expected to be taken in a tax return by determining if the weight of available evidence indicates that it is more likely than not that the tax position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement.

The Company accrued interest and penalties related to unrecognized tax benefits in its financial expenses.

Severance pay

The majority of the Company's agreements with employees in Israel are in accordance with section 14 of the Severance Pay Law, 1963 (“Section 14”), where the Company's contributions for severance pay is paid to the employee upon termination instead of the severance liability that would otherwise be payable under the law as aforementioned. Upon contribution to a fund, based on the full amount of the employee's monthly salary, and release of the fund to the employee, no additional severance payments are required to be made by the Company to the employee. Therefore, the related obligation and amounts deposited on behalf of such obligation are not stated on the balance sheet, as the Company is legally released from obligation to such employees once the deposit amounts have been paid.

The Company's liability for severance pay to its Israel-based employees not under Section 14, is calculated pursuant to Israel's Severance Pay Law based on the most recent monthly salaries of such employees, multiplied by the number of years of their employment, or a portion thereof, as of the balance sheet date. This liability is fully provided for by monthly deposits in insurance policies and by an accrual. The deposited funds include profits and losses accumulated up to the balance sheet date and they may be withdrawn only upon the fulfillment of the obligation pursuant to Israel's Severance Pay Law.

Severance expenses from continuing operations for the years ended December 31, 2016, 2017 and 2018 amounted to $2,917, $2,039 and $1,230, respectively. The balances of severance deposits and accrued severance pay are immaterial and included in other assets and other long-term liabilities on the accompanying balance sheets, respectively.

Employee benefit plan

The Company’s U.S. operations maintain a retirement plan (the “U.S. Plan”) that qualifies as a deferred salary arrangement under Section 401(k) of the Internal Revenue Code. Participants in the U.S. Plan may elect to defer a portion of their pre-tax earnings, up to the Internal Revenue Service’s annual contribution limit. The Company matches 100% of each participant’s contributions, up to 3% of employee deferral, and 50% of the next 2% of employee deferral. Contributions to the U.S. Plan are recorded during the year contributed as an expense in the consolidated statement of income.

Total employer 401(k) contributions for the years ended December 31, 2016, 2017 and 2018 were $1,018, $2,765 and $2,305, respectively.

Comprehensive income (loss)

The Company accounts for comprehensive income (loss) in accordance with ASC 220, "Comprehensive Income". This statement establishes standards for the reporting and display of comprehensive income and its components in a full set of general purpose financial statements. Comprehensive income generally represents all changes in shareholders' equity during the period except those resulting from investments by, or distributions to, shareholders. The Company determined that its other comprehensive income (loss) relates to hedging derivative instruments and foreign currency translation adjustments.

Net earnings per share

In accordance with ASC 260, "Earnings Per Share", basic net earnings per share ("Basic EPS") is computed by dividing net earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. Diluted net earnings per share ("Diluted EPS") reflects the potential dilution that could occur if share options and other commitments to issue ordinary shares were exercised or equity awards vested, resulting in the issuance of ordinary shares that could share in the net earnings of the Company.

The weighted average number of ordinary shares related to the outstanding options, restricted shares, convertible debt and warrants excluded from the calculations of diluted net earnings per ordinary share, as these securities are anti-dilutive, was 3,566,788, 5,408,206 and 4,725,618 for the years ended December 31, 2016, 2017 and 2018, respectively.

Concentrations of credit risk

Financial instruments, which potentially subject the Company to a concentration of credit risk, consist primarily of cash and cash equivalents, bank deposits, restricted cash and accounts receivable.

The majority of the Company’s cash and cash equivalents, bank deposits and restricted cash are invested in USD instruments with major banks in the U.S. and Israel. Deposits in the U.S. may be in excess of insured limits and are not insured in other jurisdictions. Generally, these deposits may be redeemed upon demand and, therefore, bear minimal risk.

The Company’s major customers are financially sound, and the Company believes low credit risk is associated with these customers. To date, the Company has not experienced any material bad debt losses. Total expenses for doubtful debts during 2016, 2017 and 2018 amounted to $152, $230 and $180, respectively.

Share-based compensation

The Company accounts for share-based compensation under ASC 718, "Compensation - Stock Compensation", which requires the measurement and recognition of compensation expense based on estimated fair values for all share-based payment awards made to employees and directors. ASC 718 requires companies to estimate the fair value of equity-based awards on the date of grant, using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as an expense over the requisite service periods in the Company's consolidated statement of income. The Company estimates forfeitures to be estimated at the time of grant, and revised if necessary in subsequent periods, if actual forfeitures differ from those estimates.

The Company recognizes compensation expenses for the value of its awards, which have graded vesting based on service conditions, using the straight-line method, over the requisite service period of each of the awards, net of estimated forfeitures. Estimated forfeitures are based on actual historical pre-vesting forfeitures. For performance-based share units, the Company recognizes compensation expenses for the value of such awards, if and when the Company concludes that it is probable that a performance condition will be achieved based on the accelerated attribution method over the requisite service period. The Company should reassess the probability of vesting at each reporting period for awards with performance conditions and adjust compensation cost based on its probability assessment.

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

The Company estimates the fair value of its new share-based awards using the Binomial option-pricing model.

The following table presents the various assumptions used to estimate the fair value of the Company's share-based awards granted to employees and directors in the periods presented:

	Year ended December 31		
	2016	2017	2018
Risk-free interest rate	0.46% - 1.73%	0.81% - 2.08%	1.50% - 3.00%
Expected volatility	49.49% - 53.54%	52% - 56%	48% - 57%
Early exercise factor	150% - 200%	150% - 200%	150% - 200%
Forfeiture rate post vesting	5% - 20%	0% - 23%	0% - 34%
Dividend yield	0%	0%	0%

The expected volatility is calculated based on the actual historical share price movements of the Company’s share. The expected option term represents the period that the Company’s share options are expected to be outstanding. The early exercise factor and the forfeiture rate post-vesting are calculated based on the Company’s estimated early exercise and post-vesting forfeiture multiples, which are based on comparable companies and on actual historical data. The risk-free interest rate is based on the yield from U.S. Treasury zero-coupon bonds, with a term which is equivalent to the expected term of the share-based awards. The dividend yield is based on the current decision of the Company’s management not to distribute any dividends.

The fair value of restricted share units (“RSU”) is based on the market value of the underlying shares on the date of grant.

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718), Improvements to Employee Share-Based Payment Accounting. The Company adopted ASU 2016-09 on January 1, 2017 and chose to continue to use the current method of estimating forfeitures each period rather than accounting for forfeitures as they occur. The adoption of the new standard had no material impact on the Company's consolidated financial statements.

Derivative instruments

The Company accounts for derivatives and hedging based on ASC 815, "Derivatives and Hedging", which requires recognizing all derivatives on the balance sheet at fair value. If the derivatives meet the definition of a cash flow hedge and are so designated, depending on the nature of the hedge, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income and reclassified into earnings in the same period, or periods, during which the hedged transaction affects earnings. The ineffective portion of a derivative’s change in fair value, if any, is recognized in earnings, as well as gains and losses from a derivative’s change in fair value that are not designated as hedges are recognized in earnings immediately.

In order to mitigate the potential adverse impact on cash flows resulting from fluctuations in the exchange rate of the new Israeli shekels ("ILS"), the Company hedges portions of its forecasted expenses denominated in ILS with swap and options contracts. The Company does not speculate in these hedging instruments in order to profit from foreign currency exchanges, nor does it enter into trades for which there are no underlying exposures.

To protect against the increase in value of forecasted foreign currency cash flow resulting mainly from salaries and related benefits and taxes paid in ILS during the year, the Company hedges portions of its anticipated payroll denominated in ILS for a period of one to twelve months with forward and options contracts (the "Hedging Contracts"). Accordingly, when the USD strengthens against the ILS, the decline in present value of future ILS currency expenses is offset by losses in the fair value of the Hedging Contracts. Conversely, when the USD weakens, the increase in the present value of future ILS expenses is offset by gains in the fair value of the Hedging Contracts. These Hedging Contracts are designated as cash flow hedges.

The Company follows the requirements of ASC No. 815, *Derivatives and Hedging* ("ASC 815"), which requires companies to recognize all of their derivative instruments as either assets or liabilities on the balance sheet at fair value. The accounting for changes in fair value (i.e. gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging transaction and further, on the type of hedging transaction. For those derivative instruments that are designated and qualify as hedging instruments, a company must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge, cash flow hedge, or a hedge of a net investment in a foreign operation.

Additionally, in order to mitigate the potential adverse impact of the fluctuations in the ILS-USD exchange rate in connection with the convertible debt (see Note 10), the Company has entered into a cross currency interest rate SWAP agreement (the "SWAP") in order to hedge the future interest and principal payments, which are all denominated in ILS. However, since the convertible debt is measured at fair value at each reporting date, the SWAP does not qualify and was not designated as hedge under ASC 815. Therefore, gains or losses resulting from the change of the SWAP's fair value are recognized immediately as incurred in "financial expenses, net". The Company measured the fair value of these contracts in accordance with ASC 820, "Fair Value Measurement and Disclosures", and they were classified as level 2.

In order to limit the Company's interest expenses derived from the secured credit agreement in which the Company entered concurrently with the closing of the Undertone acquisition (see Note 4), the Company has purchased a Cap Option for the interest amounts expected to be paid till June 2018. The cap option is designated as cash flow hedge under ASC 815.

The notional value of the Company's derivative instruments as of December 31, 2017 and 2018, amounted to $51,504 and $25,691, respectively. Notional values in USD are translated and calculated based on the spot rates for options and swap. Gross notional amounts do not quantify risk or represent assets or liabilities of the Company; however, they are used in the calculation of settlements under the contracts.

Fair value of financial instruments

The carrying amounts of financial instruments carried at cost, including cash and cash equivalents, short-term deposits, restricted cash, accounts receivable, prepaid expenses and other assets, accounts payable, accrued expenses and other liabilities approximate their fair value due to the short-term maturities of such instruments.

The Company follows the provisions of ASC No. 820, “Fair Value Measurement” (“ASC 820”), which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

In determining a fair value, the Company uses various valuation approaches. ASC 820 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing an asset or liability, based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect assumptions that market participants would use in pricing an asset or liability, based on the best information available under given circumstances.

The hierarchy is broken down into three levels, based on the observability of inputs and assumptions, as follows:

- Level 1 - Observable inputs obtained from independent sources, such as quoted prices for identical assets and liabilities in active markets.
- Level 2 - Other inputs that are directly or indirectly observable in the market place.
- Level 3 - Unobservable inputs which are supported by little or no market activity.

Treasury shares

In the past, the Company repurchased its ordinary shares on the open market. The Company holds the shares as treasury shares and presents their cost as a reduction of shareholders' equity.

Business combinations

The Company accounted for business combination in accordance with ASC 805, "Business Combinations". ASC 805 requires recognition of assets acquired, liabilities assumed, and any non-controlling interest at the acquisition date, measured at their fair values as of that date. Any excess of the fair value of net assets acquired over purchase price is allocated to goodwill and any subsequent changes in estimated contingencies are to be recorded in earnings. In addition, changes in valuation allowance related to acquired deferred tax assets and in acquired income tax position are to be recognized in earnings.

Acquisition related costs are expensed to the statement of income in the period incurred.

Discontinued operations

Under ASC 205, "Presentation of Financial Statements - Discontinued Operation", when a component of an entity, as defined in ASC 205, has been disposed of or is classified as held for sale, the results of its operations, including the gain or loss on its disposal are classified as discontinued operations and the assets and liabilities of such component are classified as assets and liabilities attributed to discontinued operations, provided that the operations, assets and liabilities and cash flows of the component have been eliminated from the entity’s consolidated operations and the entity will no longer have any significant continuing involvement in the operations of the component.

In August 2016, the Company completed the sale of its Grow Mobile Engagement ("GME") business for a total consideration of $1,750, which was included in net loss from discontinued operations in the consolidated statement of income for the year ended December 31, 2016.

The results of the discontinued operations, including prior periods' comparable results, which have been retroactively reclassified as a separate line items in the statements of income, are presented below:

	Year ended December 31, 2016 (*)
Costs and expenses	5,192
Impairment of intangible assets and goodwill	-
Gain on disposal of the discontinued operations	(1,750)
Loss before taxes on income	(3,442)
Taxes on income	795
Total net loss on discontinued operations	$ (2,647)

Depreciation expenses from discontinued operations totaled $71 and $0 and $0, for the years ended December 31, 2016, 2017 and 2018, respectively.

(*) Represent the results of the discontinued operations until their disposal.

Reclassifications

Certain items of expense have been reclassified to conform to current year financial statement presentation.

Recent Accounting Pronouncements not yet adopted

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2016-02 (Topic 842) "Leases." Topic 842 supersedes the lease requirements in Accounting Standards Codification (ASC) Topic 840, "Leases." Under Topic 842, lessees are required to recognize assets and liabilities on the balance sheet for most leases and provide enhanced disclosures. Leases will continue to be classified as either finance or operating. This ASU is effective for annual periods beginning after December 15, 2018. The provisions of ASU 2016-02 are to be applied using a modified retrospective approach. In July 2018, the FASB issued Accounting Standards Update 2018-11, Leases (Topic 842). This update provides entities with an additional (and optional) transition method to adopt the new leases standard. Under this method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Consequently, the prior comparative period's financials will remain the same as those previously presented. The Company has elected to apply the guidance at the beginning of the period of adoption and not restate comparative periods.

The Company expects that the adoption of this standard will have a material effect on its consolidated financial statements. While the Company continues to assess all the effects of adoption, it currently believes that the most significant impact will be reflected in: (i) the recognition of new ROU assets and lease liabilities on the consolidated balance sheet for its operating leases of buildings, and vehicles, and (ii) the requirement to provide significant new disclosures regarding the Company's leasing activities. The Company, however, does not expect a material impact to its consolidated statements of income and consolidated statements of cash flow since the expense recognition under this new standard will be similar to current practice. The Company's financial income (expenses), net will be impacted by the revaluation of the lease liabilities in non-USD denominated currencies.

Following adoption of the new standard, the Company expects to recognize additional operating liabilities of $25,800, with corresponding ROU assets of approximately the same amount based on the present value of the remaining minimum rental payments under current leasing standards for existing operating leases.

The Company expects to elect the short-term lease recognition exemption for all leases that qualify. This means, for those leases, the Company will not recognize ROU assets or lease liabilities.

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

In February 2018, the FASB issued ASU 2018-02 "Income Statement—Reporting Comprehensive Income—Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income". The guidance allows reclassification of stranded tax effects resulting from the Tax Cuts and Jobs Act from accumulated other comprehensive income to retained earnings. This guidance is effective for fiscal years beginning after December 15, 2018. The adoption of this guidance has no material impact on the Company's consolidated financial statements.

In June 2018, the FASB issued ASU 2018-07 "Improvement to Nonemployee Share-Based Payments Accounting". This guidance simplifies the accounting for non-employee share-based payment transactions. The amendments specify that ASC 718 applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in a grantor's own operations by issuing share-based payment awards. The guidance is effective for fiscal years beginning after December 31, 2018. The Company does not expect that the adoption of this guidance will have a significant impact on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13 "Fair Value Measurement (Topic 820)—Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement". This guidance removes certain disclosure requirements related to the fair value hierarchy, modifies existing disclosure requirements related to measurement uncertainty and adds new disclosure requirements. The new disclosure requirements include disclosing the changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. Certain disclosures required by this guidance must be applied on a retrospective basis and others on a prospective basis. The guidance will be effective for fiscal years beginning after December 15, 2019, although early adoption is permitted. The Company is currently evaluating this guidance to determine the impact it may have on its consolidated financial statements.

NOTE 3: FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table present assets and liabilities measured at fair value on a recurring basis as of December 31, 2018:

	Fair value measurements using input type			
	Level 1	Level 2	Level 3	Total
Assets:				
Derivative assets	$ -	$ 871	$ -	$ 871
Total financial assets	**$ -**	**$ 871**	**$ -**	**$ 871**
Liabilities:				
Derivative liabilities	-	153	-	153
Convertible debt	15,453	-	-	15,453
Total financial liabilities	**$ 15,453**	**$ 153**	**$ -**	**$ 15,606**

The following table present assets and liabilities measured at fair value on a recurring basis as of December 31, 2017:

	Fair value measurements using input type			
	Level 1	Level 2	Level 3	Total
Assets:				
Derivative assets	$ -	$ 3,486	$ -	$ 3,486
Total financial assets	**$ -**	**$ 3,486**	**$ -**	**$ 3,486**
Liabilities:				
Convertible debt	25,353	-	-	25,353
Total financial liabilities	**$ 25,353**	**$ -**	**$ -**	**$ 25,353**

NOTE 4: ACQUISITIONS

a. Interactive Holding Corp.

On November 30, 2015, the Company acquired 100% of the shares of Interactive Holding Corp., a Delaware corporation, and its subsidiaries (collectively referred to as "Undertone") for a total preliminary purchase price of $133,101, comprised of (i) immediate cash payment of $89,078; (ii) $6,129 cash payments between 2016 and 2017; (iii) $16,000 holdback for potential claims recorded at fair value ($14,391 at acquisition), and (iv) $20,000 deferred consideration, bearing 10% annual interest, to be paid on November 2020, for which a liability of $22,005 was recorded at fair value (v) Working capital adjustment in the amount of $1,498.

On August 2, 2016, the Company executed an amendment to the purchase agreement, pursuant to which, the Company paid $22,000 and eliminated $35,546 at fair value, of obligations. As a result of the amendment, the Company reduced the purchase price by $13,546. Final purchase price amounted to $119,768 including a working capital final adjustment of $213 in 2016.

b. Make Me Reach SAS

On February 10, 2015, the Company consummated the acquisition of 100% of the shares of Make Me Reach SAS, a private French company headquartered in Paris, France ("MMR"). MMR enables advertisers to efficiently and effectively scale their advertising campaigns on social media, with a specific focus on optimizing mobile ad campaigns. MMR is a Facebook Preferred Marketing Developer (“PMD”) and Twitter Marketing Platform Partner (“MPP”). The purchase price was $6,394 in cash and $4,378 in the form of 1,437,510 ordinary shares. In addition, the Company paid certain key employees of MMR retention payments of $144 in cash and $63 in the form of 18,998 ordinary shares, which were paid upon closing, and $708 in cash and $650 in ordinary shares, subject to retention conditions, which were met and paid in full in February 2016. Amounts subject to retention conditions were included as payroll expenses in the statement of operations.

NOTE 5: PROPERTY AND EQUIPMENT, NET

	December 31,	
	2017	2018
Cost:		
Computers and peripheral equipment	$ 10,295	$ 7,004
Office furniture and equipment	2,811	2,836
Leasehold improvements	7,779	8,712
Capitalized software	10,650	12,645
Total cost	31,535	31,197
Less: accumulated depreciation and amortization	(14,059)	(15,548)
Property and equipment, net	**$ 17,476**	**$ 15,649**

Depreciation and amortization from continued operations totaled $4,003, $3,567 and $4,950, for the years ended December 31, 2016, 2017 and 2018, respectively.

During 2017 and 2018, the Company capitalized software development costs of $5,756 (including $31 of share-based compensation) and $1,756, respectively. Amortization expense for the related capitalized internally developed software is included in Depreciation and amortization in the consolidated statements of income and amounted to $843 and $2,978 during 2017 and 2018, respectively.

NOTE 6: GOODWILL AND OTHER INTANGIBLE ASSETS, NET

a. Goodwill

The changes in the net carrying amount of goodwill in 2017 and 2018 were as follows:

Balance as of January 1, 2017	**$ 190,737**
Impairment on Undertone's goodwill	(65,686)
Balance as of December 31, 2017	**$ 125,051**
Balance as of December 31, 2018	**$ 125,051**

Goodwill has been recorded as a result of prior acquisitions and represents excess of the consideration over the net fair value of the assets of the businesses acquired. As of December 31, 2018, the Company has two reporting units – Undertone and Search monetization. The Company performs tests for impairment of goodwill at the reporting unit level at least annually, or more frequently if events or changes in circumstances occur that would more likely than not reduce the fair value of a reporting unit below its carrying value. In 2017 the Company recorded an impairment charge of $65,686, classified as “Impairment charges” in the consolidated statements of income. No such impairment charges were recorded in 2018.

b. Intangible assets, net

The following is a summary of intangible assets as of December 31, 2018:

	December 31, 2017	Amortization	OCI	December 31, 2018
Acquired technology	$ 30,837	$ -	$ (30)	$ 30,807
Accumulated amortization	(19,959)	(1,301)	18	(21,242)
Impairment	(8,749)	-	-	(8,749)
Acquired technology, net	2,129	(1,301)	(12)	816
Customer relationships	31,949	-	(9)	31,940
Accumulated amortization	(18,832)	(999)	6	(19,825)
Impairment	(10,426)	-	-	(10,426)
Customer relationships, net	2,691	(999)	(3)	1,689
Tradename and other	18,457	-	(42)	18,415
Accumulated amortization	(6,858)	(2,469)	13	(9,314)
Impairment	(5,110)	-	-	(5,110)
Tradename and other, net	6,489	(2,469)	(29)	3,991
Intangible assets, net	$ 11,309	$ (4,769)	$ (44)	$ 6,496

The following is a summary of intangible assets as of December 31, 2017:

	December 31, 2016	Amortization	OCI	Impairment	December 31, 2017
Acquired technology	$ 30,674	$ -	$ 163	-	$ 30,837
Accumulated amortization	(14,490)	(5,390)	(79)	-	(19,959)
Impairment	(956)	-	-	(7,793)*)	(8,749)
Acquired technology, net	15,228	(5,390)	84	(7,793)	2,129
Customer relationships	31,898	-	51	-	31,949
Accumulated amortization	(13,905)	(4,900)	(27)	-	(18,832)
Impairment	(91)	-	-	(10,335)*)	(10,426)
Customer relationships, net	17,902	(4,900)	24	(10,335)	2,691
Tradename and other	18,224	-	233	-	18,457
Accumulated amortization	(4,079)	(2,734)	(45)	-	(6,858)
Impairment	(3,257)	-	-	(1,853)*)	(5,110)
Tradename and other, net	10,888	(2,734)	188	(1,853)	6,489
Intangible assets, net	$ 44,018	$ (13,024)	$ 296	$ (19,981)	$ 11,309

*) Calculated based on the Income approach (discounted cash flow model), using a discount rate of 15.7%

The estimated useful life of the intangible assets are as follows:

	Estimated useful life
Acquired technology	3-5 years
Customer relationships	4-5 years
Tradename and other	4-11 years

Amortization of intangible assets, net, in each of the succeeding five years and thereafter is estimated as follows:

2019	$ 4,228
2020	1,279
2021	229
2022	240
2023	252
Thereafter	268
	$ 6,496

NOTE 7: ACCRUED EXPENSES AND OTHER LIABILITIES

	December 31,	
	2017	2018
Employees and payroll accruals	$ 8,020	$ 8,528
Government authorities	2,427	2,068
Professional services accruals	1,886	1,480
Other accruals	4,155	4,604
Other overhead related expenses	885	253
Hosting, software and web services accruals	411	307
	$ 17,784	**$ 17,240**

NOTE 8: DERIVATIVES AND HEDGING ACTIVITES

The fair value of the Company's outstanding derivative instruments is as follows:

	Balance sheet	December 31, 2017	December 31, 2018
Derivatives designate as hedging instruments:			
Foreign exchange forward contracts and other derivatives	"Prepaid expenses and other current assets"	$ 140	$ 11
	"Accrued expenses and other liabilities"	-	153
	"Accumulated other comprehensive income"	116	(106)
Derivatives not designated as hedging instruments:			
Cross currency SWAP	"Prepaid expenses and other current assets"	$ 3,346	$ 860

As of December 31, 2018, the Company estimates that $142 of the net derivative losses related to its cash flow hedges included in accumulated other comprehensive income will be reclassified into expenses within the next 12 months when the underlying hedged item impacts earnings.

The net losses reclassified from accumulated other comprehensive loss to the operating expenses are as follows:

	Gain recognized in Statements of Comprehensive Income		Gain (loss) recognized in consolidated statements of Income		
	Year ended December 31, 2018	Statement of Income	Year ended December 31, 2016	2017	2018
Derivatives designated as hedging instruments:					
Foreign exchange options and forward contracts	$ (223)	"Operating expenses"	$ 167	$ 525	$ (206)
Derivatives not designated as hedging instruments:					
Foreign exchange options and forward contracts		"Financial expenses"	(16)	132	(186)
SWAP		"Financial expenses"	608	2,373	2,487
Total	**$ (223)**		**$ 759**	**$ 3,030**	**$ 2,095**

NOTE 9: SHORT TERM AND LONG-TERM DEBT

1. On November 30, 2015, concurrently with the closing of the Undertone acquisition, Interactive Holding Corp. entered into a new secured credit agreement for $50,000, due in quarterly installments from March 2016 to November 2019. The installments started at $625 per quarter, increased to $1,250 per quarter in March 2018 and required a final payment upon maturity of $35,000. The interest rate was LIBOR plus 5.5% per annum on the outstanding principal. The loan was secured by substantially all the assets of the companies in the Undertone group and by guarantees of such companies. The debt issuance cost amounted to $1,399, which was deducted from the carrying amount of the loan in the consolidated balance sheets and amortized during the loan's term according to the effective interest method.

   According to the credit agreement, Undertone had the option for prepayment to be applied to principal installments as specified by Undertone. In each of 2016 and 2017, Undertone prepaid $5,000 (together $10,000), which were applied to the final principal upon maturity. In November 2017, Undertone opted to exercise its equity cure right to cure certain financial covenant defaults for the fiscal quarter ending September 30, 2017. To this extent, Undertone paid $1,580 which was applied to subsequent amortization payments in the direct order of maturity. In connection with the exercise of the equity cure, Undertone paid an additional $264 which was amortized in the same manner as the debt issuance costs.

   On March 6, 2018, the Company entered into an amendment to its secured credit agreement which provides for a waiver of the financial covenants of the quarter ending December 31, 2017 as well as certain covenants relief. The Amendment was conditioned upon an $8,000 prepayment of the term loan, which took place on the same date. As of December 31, 2018, the outstanding loan balance of $21,500 (including the accrued interest thereon) was fully repaid (see also 3 below).

2. On May 9, 2017, the Company secured $17,500 under a new credit facility from an Israeli bank of which $12,500 revolving credit line and $5,000 term loan. The $12,500 credit facility had an interest of LIBOR plus 3.5% per annum and was secured, among other, by a lien on the accounts receivable of ClientConnect Ltd., an Israeli subsidiary. Both facilities were guaranteed by Perion. The $5,000 was a long-term loan bearing interest at LIBOR plus 5% per annum, to be repaid in 36 equal installments starting from June 30, 2017. As of December 31, 2018 the outstanding balance of the credit facility was repaid and replaced by another loan from the same bank (see below).

3. On December 17, 2018, the company, executed a new loan facility, in the amount of $25,000. Proceeds of the loan facility were applied to refinancing of the existing debt as well as the debt of Undertone. Principal on the loan is payable in twelve equal quarterly instalments beginning March 2019 and maturing on December 31, 2021. The interest on the loan is at the rate of three-month LIBOR plus 5.7% per annum, payable quarterly. The credit facility is secured by liens on the assets of ClientConnect and Undertone and is guaranteed by Perion and Undertone. Each such guarantee is limited to $33 million. Financial covenants for the loan facility are tested at the level of Perion on a consolidated basis. As of December 2018, Perion meets all of its covenants.

As of December 31, 2018, the aggregate principal annual maturities according to all of the above loan agreements were as follows:

	Repayment amount
2019	$ 8,333
2020	8,333
2021	8,334
Present value of principal payments	**25,000**
Less: current portion	(8,333)
Long-term debt	**$ 16,667**

NOTE 10: CONVERTIBLE DEBT

In September 2014, the Company completed a public offering in Israel of its Series L Convertible Bonds (the "Bonds"), with an aggregate par value of approximately ILS 143,500, out of which, as of December 31, 2018, approximately ILS 57,394 was outstanding, (approximately $15,313 as of December 31, 2018). The Bonds were issued at a purchase price equal to 96.5% of their par value and bear annual interest at a rate of 5%, payable semi-annually, subject to a possible increase up to 6% in the event and to the extent the Company's debt rating is downgraded. The Bonds' principal, denominated in ILS, is repayable in five equal annual instalments commencing on March 31, 2016.

The Bonds are convertible, at the election of each holder, into the Company's ordinary shares at a conversion price of ILS 100.815 per share ($26.90 on December 31, 2018) from the date of issuance and until March 15, 2020. The ordinary shares issued upon conversion of the Bonds will be listed on the NASDAQ Stock Market ("Nasdaq") and the Tel-Aviv Stock Exchange ("TASE"), to extent that the Company's ordinary shares are listed thereon at the time of conversion. The conversion price is subject to adjustment in the event that the Company effects a share split or reverse share split, rights offering or a distribution of bonus shares or a cash dividend.

The Company may redeem the Bonds upon delisting of the Bonds from the TASE, subject to certain conditions. In addition, the Company may redeem the Bonds or any part thereof at its discretion after December 1, 2014, subject to certain conditions.

The Company elected to apply the fair value option in accordance with ASC 825, "Financial Instruments", to the Bonds and therefore all unrealized gains and losses are recognized in earnings. As of December 31, 2018, the fair value of the Bonds, based on their quoted price at the TASE and including accrued interest of $193, was $15,453.

The changes of the long-term convertible debt in 2017 and 2018 were as follows:

Balance as of January 1, 2017	**$ 29,526**
Change in accrued interest	1,344
Change in fair value	3,785
Payment of interest	(1,401)
Payment of principal	(7,901)
Balance as of December 31, 2017*	**$ 25,353**
Change in accrued interest	863
Change in fair value	(1,585)
Payment of interest	(1,011)
Payment of principal	(8,167)
Balance as of December 31, 2018*	**$ 15,453**

* includes accrued interest of $313 and $193 as of December 31, 2017 and 2018, respectively.

In order to mitigate the potential adverse impact of the fluctuations in the ILS-USD exchange rate, the Company entered into a cross currency interest rate swap agreement (the "SWAP") to hedge the future interest and principal payments of the Bonds, which are denominated in ILS.

As of December 31, 2018, the Company satisfies all of the financial covenants associated with both the Bonds and the SWAP.

As of December 31, 2018, the aggregate principal annual payments of the Bonds were as follows:

	Repayment amount
2019	$ 7,657
2020	7,656
	$ 15,313

NOTE 11: COMMITMENTS AND CONTINGENT LIABILITIES

a. Office lease commitments

In January 2014, the Company entered into a lease agreement for new corporate offices in Holon, Israel. The lease expires in January 2025, with an option by the Company to extend for two additional terms of 24 months each. Additionally, the Company may exercise an early termination of the lease in November 2019 and will pay the amount of the construction budget which was utilized.

In June 2018, Undertone entered into a lease agreement for its office at World Trade Center (WTC) New York. The lease expires in May 2026. Additionally, the Company may choose an early termination in 2023.
Certain other facilities of the Company are rented under operating lease agreements, which expire on various dates, the latest of which is in 2028. The Company recognizes rent expense under such arrangements on a straight-line basis.

Furthermore, the Company leases motor vehicles for employees under operating lease agreements.

Aggregate minimum lease commitments under the aforesaid non-cancelable operating leases as of December 31, 2018, were as follows:

	Minimum lease payments	Minimum sublease rentals	Net future minimum lease commitment
2019	$ 5,102	$ 3,248	$ 1,854
2020	5,985	2,940	3,045
2021	5,768	2,880	2,888
2022	5,062	2,325	2,737
2023	4,681	1,987	2,694
Thereafter	9,922	2,153	7,769
	$ 36,520	**$ 15,533**	**$ 20,987**

Facilities leasing expenses from continued operations in the years 2016, 2017 and 2018 were $5,419, $4,118, and $4,123 respectively. Car leases expenses from continued operations in the years 2016, 2017 and 2018 were $790, $493 and $343, respectively. Sublease income amounted to $703, $1,076 and $2,213 in the years 2016, 2017 and 2018, respectively.

b. Contingent purchase obligation

On November 30, 2012, the Company completed the acquisition of 100% of Sweet IM’s shares. Pursuant to the terms of the Share Purchase Agreement (“SPA”) between the Company and SweetIM, the Company was obligated to pay SweetIM's shareholders, among other payments, a payment of up to $7,500 in cash in May 2014 if certain milestones were met (the “Contingent Payment”). The milestones were based on the Company's GAAP revenues in 2013, and the absence of certain changes in the industry in which the Company operates. On May 28, 2014, the Company paid $2,500 in respect of the Contingent Payment. Following such payment, on June 22, 2014, SweetIM’s Shareholders’ representative notified the Company claiming that the Company owes SweetIM’s shareholders the entire Contingent Payment. In April 2015, pursuant to the SPA, an arbitration process with respect to this claim has commenced in Israel. Based on the August 2018 ruling of the arbitrator, the remaining balance of the Contingent Payment shall be paid to SweetIM's shareholders in 3 equal installments. As of December 31, 2018, the Company maintains a $1,667 liability in its financial statements, which was fully paid during January 2019.

c. Legal Matters

On December 22, 2015, Adtile Technologies Inc. filed a lawsuit against the Company and Intercept Interactive Inc. (“Intercept”), a subsidiary of Interactive Holding Corp., in the United States District Court for the District of Delaware. The lawsuit alleges various causes of action against Perion and Undertone related to Undertone’s alleged unauthorized use and misappropriation of Adtile’s proprietary information and trade secrets. Adtile is seeking injunctive relief and, unspecified monetary damages. On June 23, 2016, the court denied Adtile’s motion for a preliminary injunction. On June 24, 2016, the court (i) granted the Company’s motion to dismiss, and (ii) granted Intercept’s motion to stay the action and compel arbitration. In November 2017, the court dismissed the case for administrative reasons, since Adtile had not commenced arbitration proceedings. The Company is still unable to predict the outcome or range of possible loss as of the date of these financial statements, since to date Adtile had not commenced arbitration procedures. Regardless, the Company believes it has strong defenses against this lawsuit and intends to defend against it vigorously.

In addition, from time to time, the Company is party to other various legal proceedings, claims and litigation that arise in the ordinary course of business. It is the opinion of management that the ultimate outcome of these matters will not have a material adverse effect on the Company's financial position, results of operations or cash flows.

NOTE 12: SHAREHOLDERS' EQUITY

a. Ordinary shares

The ordinary shares of the Company entitle their holders to voting rights, the right to receive cash dividend and the right to a share in excess assets upon liquidation of the Company.

On August 2, 2018 the Company's Shareholders' approved a 3:1 “Reverse Share Split” of its Ordinary shares, which became effective on August 26, 2018. The accompanying consolidated financial statements and notes give retroactive effect to the reverse share split for all periods presented. All fractional shares created by the Reverse Share Split have been rounded down to the nearest whole share.

b. Private placement

On December 3, 2015 (the “Effective date”), the Company completed a private placement of 4,436,898 ordinary shares for gross proceeds of $10,125 pursuant to a Securities Purchase Agreement (the “SPA”) with two investors. The purchase price per share was $2.282 per share, which was the average closing price of an ordinary share on the Nasdaq Global Select Market for the 30 trading days ending on December 1, 2015. According to the terms of the SPA, on September 1, 2016, the per share purchase price was adjusted downward to a price per share of $1.939, and the Company issued to the two investors 782,981 additional ordinary shares for no additional consideration.

On November 30, 2015, the Company entered into a Registration Rights Agreement (the "Agreement") with the two investors, pursuant to which the Company shall use its commercially reasonable efforts in order to file a registration statement on Form F-3 for the resale of the aforesaid ordinary shares issued within the time frame as detailed in the Agreement. The registration statement was declared effective on March 31, 2016.

c. Share Options, Restricted Share Units and Warrants

In 2003, the Company's Board of Directors approved the 2003 Equity Incentive Plan (the "Plan") for an initial term of ten years from adoption and on December 9, 2012, extended the term of the Plan for an additional ten years. On August 7, 2013, the Company's Board of Directors approved amendments to the Plan which include the ability to grant RSUs and restricted shares.

The contractual term of the share options is generally no more than five years and the vesting period of the options and RSUs granted under the Plan is between one and three years from the date of grant. The rights of the ordinary shares issued upon the exercise of share options or RSUs are identical to those of the other ordinary shares of the Company.

As of December 31, 2018, there were 878,249 ordinary shares reserved for future share-based awards under the Plan.

The following table summarizes the activities for the Company's service-based share options for the year ended December 31, 2018:

		Weighted average		
	Number of options	**Exercise price**	**Remaining contractual term (in years)**	**Aggregate intrinsic value**
Outstanding at January 1, 2018	4,203,888	$ 4.52	4.27	$ 56
Granted	1,035,481	3.08	-	-
Exercised	(167)	3.24	-	-
Cancelled	(1,494,395)	5.20	-	-
Outstanding at December 31, 2018	3,744,807	$ 3.85	4.97	$ 27
Exercisable at December 31, 2018	1,314,690	$ 4.88	3.86	$ 4
Vested and expected to vest at December 31, 2018	2,906,311	$ 4.57	4.11	$ 19

The weighted-average grant-date fair value of options granted during the years ended December 31, 2016, 2017 and 2018 was $0.64, $0.72 and $1.27, respectively.

The aggregate intrinsic value of the outstanding share options at December 31, 2018, represents the intrinsic value of 106,332 outstanding options that were in-the-money as of such date. The remaining 3,638,475 outstanding options were out-of-the-money as of December 31, 2018, and their intrinsic value was considered as zero. Total intrinsic value of options exercised during the year ended December 31, 2018 was $1.

The number of options expected to vest reflects an estimated forfeiture rate.

The following table summarizes the activities for the Company's performance-based share options for the year ended December 31, 2018:

	Number of Performance based options	Weighted average Exercise price	Weighted average Remaining contractual term (in years)	Aggregate intrinsic value
Outstanding at January 1, 2018	283,331	$ 4.93	-	$ -
Cancelled	(66,666)	6.84	-	-
Outstanding at December 31, 2018	216,665	4.35	4.12	-
Exercisable at December 31, 2018	116,666	5.30	2.55	-
Vested and expected to vest at December 31, 2018	116,666	$ 5.30	2.55	$ -

The performance based options' vesting is contingent upon achieving specific financial targets of the Company, set at the grant date.

No performance based options were granted during 2016, 2017 and 2018.

There is no aggregate intrinsic value of the outstanding performance-based options at 2018, since they were all out-of-the-money as of such date.

The number of options expected to vest reflects an estimated forfeiture rate.

The following table summarizes additional information regarding outstanding and exercisable options under the Company's share Option Plan as of December 31, 2018:

	Outstanding			Exercisable		
Range of exercise price	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price
$ 1.03 – 2.94	206,211	3.74	$ 2.62	69,325	1.33	$ 2.78
3.01 – 3.36	2,909,553	5.64	3.20	802,145	5.14	3.23
4.23 – 6.90	720,937	3.02	4.86	435,115	2.33	5.20
7.08 – 9.81	10,332	1.29	7.24	10,332	1.29	7.24
10.01 – 12.75	72,220	1.49	10.85	72,220	1.49	10.85
$ 13.14 –40.62	42,219	0.44	26.69	42,219	0.44	26.69
	3,961,472	4.92	$ 3.87	1,431,356	3.75	$ 4.91

The Company recognized share-based compensation expenses related to its share-based awards in the consolidated statements of operations as follows:

	Year ended December 31,		
	2016	**2017**	**2018**
Cost of revenues	$ 219	$ 36	$ 136
Research and development	708	229	448
Selling and marketing	1,907	744	848
General and administrative	4,010	1,103	1,286
Total	**$ 6,844**	**$ 2,112**	**$ 2,718**
Share-based compensation in discontinued operations	**$ 42**	**$ -**	**$ -**

As of December 31, 2018, there was $2,968 of unrecognized compensation cost related to outstanding options and RSUs and $59 related to outstanding warrants. These amounts are expected to be recognized over a weighted-average period of 1.43 years related to outstanding options and RSUs and 1 year related to outstanding warrants. To the extent the actual forfeiture rate is different from what has been estimated, share-based compensation related to these awards will differ from the initial expectations.

d. In connection with the Undertone acquisition, the Company granted warrants to purchase 66,666 ordinary shares, at a weighted average exercise price of $9.09 per share, to a third-party vendor that provides development services to Undertone. The warrants are exercisable until December 27, 2020, and its weighted-average grant-date fair value was $1.23. The total expense incurred in 2016, 2017 and 2018 was $62, $61 and $61, respectively.

e. In January 2018, the Company executed a repricing of 2,689,669 share options of the Company's employees, and directors. As part of the repricing, the options' exercise price was adjusted to $ $3.24 with a vesting period of (i) grants issued prior to January 1, 2015, shall vest over a twelve months period in quarterly installments whether or not currently vested or would have been vested by that time; (ii) grants issued after January 1, 2015 will be subject to the following vesting schedule: one third shall vest over twelve months in equal quarterly installments, and the remaining two-thirds shall vest over twenty four months in equal quarterly installments whether or not currently vested or would have been vested by that time. The expiration date of the adjusted options shall be seven years from the date hereof. The total incremental fair value of these options amounted to $1,471.

NOTE 13: FINANCIAL INCOME (EXPENSE), NET

	Year ended December 31,		
	2016	2017	2018
Financial income:			
Interest income	$ 204	$ 132	$ 296
Foreign currency translation gains, net	-	204	1,013
Change in fair value of convertible debt	-	-	1,585
Change in fair value of SWAP	608	2,373	-
Other	-	197	355
	$ 812	**$ 2,906**	**$ 3,249**
Financial expense:			
Foreign currency translation losses, net	$ (779)	$ -	$ -
Interest and change in fair value of payment obligation related to acquisitions	(1,303)	(43)	-
Interest expense on debts	(5,306)	(4,794)	(3,820)
Change in fair value of SWAP	-	-	(2,487)
Change in fair value of convertible debt	(1,350)	(3,785)	-
Bank charges and other	(362)	(206)	(736)
	$ (9,100)	**$ (8,828)**	**$ (7,043)**
Financial expense, net	**$ (8,288)**	**$ (5,922)**	**$ (3,794)**

NOTE 14: INCOME TAXES

a. Income (Loss) before taxes on income

Income (Loss) before taxes on income is comprised as follows:

	Year ended December 31,		
	2016	2017	2018
Domestic	$ (3,393)	$ 10,485	$ 9,081
Foreign	6,453	(92,065)	1,816
Total	**$ 3,060**	**$ (81,580)**	**$ 10,897**

b. Taxes on income

Taxes on income are comprised as follows:

	Year ended December 31,		
	2016	2017	2018
Current taxes	$ 3,753	$ 1,212	$ 1,706
Taxes in respect of previous years	(273)	(1,179)	612
Deferred tax expense (benefit)	(3,268)	(8,859)	458
Total	**$ 212**	**$ (8,826)**	**$ 2,776**

Taxes on income by jurisdiction were as follows:

	Year ended December 31,		
	2016	2017	2018
Domestic	$ 3,396	$ 1,548	$ 2,187
Foreign	(3,184)	(10,374)	589
Total	**$ 212**	**$ (8,826)**	**$ 2,776**
Domestic:			
Current taxes	$ 2,800	$ 387	$ 1,121
Deferred tax (benefit) expense	937	2,532	649
Taxes in respect of previous years	(341)	(1,371)	417
Total - Domestic	**$ 3,396**	**$ 1,548**	**$ 2,187**
Foreign:			
Current taxes	$ 953	$ 825	$ 585
Deferred tax benefit	(4,205)	(11,391)	(191)
Taxes in respect of previous years	68	192	195
Total - Foreign	**$ (3,184)**	**$ (10,374)**	**$ 589**
Total income tax expense	**$ 212**	**$ (8,826)**	**$ 2,776**

c. Deferred Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The significant components of the Company's deferred tax assets and liabilities are as follows:

	December 31,	
	2017	**2018**
Deferred tax assets:		
Net operating loss carry forwards	$ 5,809	$ 4,992
Research and development	753	2,216
Intangible assets	829	1,480
Other temporary differences mainly relating to reserve and allowances	1,937	718
Deferred tax assets, before valuation allowance	**9,328**	**9,406**
Valuation allowance	4,530	4,992
Total deferred tax assets, net	**$ 4,798**	**$ 4,414**
Deferred tax liabilities:		
Intangible assets	$ -	$ -
Property and equipment, net	-	$ -
Total deferred tax liabilities	**$ -**	**$ -**
Total deferred tax liability, net	**$ 4,798**	**$ 4,414**
Domestic:		
Long term deferred tax asset, net	$ 1,536	$ 950
Long term deferred tax liability	-	-
	$ 1,536	**$ 950**
Foreign:		
Long term deferred tax asset, net	$ 3,262	$ 3,464
Long term deferred tax liability	-	-
	$ 3,262	**$ 3,464**
Total deferred tax asset (liability), net	**$ 4,798**	**$ 4,414**

The $462 change in the total valuation allowance for the year ended December 31, 2018, relates to the increase in deferred taxes on operating loss carry-forwards and temporary differences for which a full valuation allowance was recorded.

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

A reconciliation between the theoretical tax expense, assuming all income is taxed at the statutory tax rate applicable to income of the Company, and the actual tax expense as reported in the statement of income is as follows:

	Year ended December 31,		
	2016	2017	2018
Income (Loss) before taxes on income	**$ 3,060**	**$ (81,580)**	**$ 10,897**
Statutory tax rate in Israel	25.0%	24.0%	23.0%
Theoretical tax expense (income)	**$ 765**	**$ (19,579)**	**$ 2,506**
Increase (decrease) in tax expenses resulting from:			
"Preferred Enterprise" benefits *	(1,356)	(584)	(1,301)
Non-deductible expenses	1,777	1,150	298
Non- deductible Impairment charges	-	12,652	-
Deferred taxes on losses and other temporary charges for which a valuation allowance was provided, net	527	(209)	541
Tax adjustment in respect of different tax rate of foreign subsidiaries	(2,032)	(3,392)	511
Change in future tax rate	448	836	-
Other	83	300	221
Taxes on income	**$ 212**	**$ (8,826)**	**$ 2,776**
* Benefit per ordinary share from "Preferred Enterprise" status:			
Basic	$ 0.05	$ 0.02	$ 0.05
Diluted	$ 0.05	$ 0.02	$ 0.05

e. Income tax rates

Taxable income of Israeli companies was generally subject to corporate tax at the rate of 25% for the 2016 tax year. On December 30, 2016, as part of the Economic Efficiency Law (Legislative Amendments for Accomplishment of Budgetary Targets for Budget Years 2017-2018), 5777-2016, the corporate tax rate was reduced to 24% for the 2017 tax year and to 23% in the 2018 tax year. However, the effective tax rate payable by a company that derives income from a Preferred Enterprise (as discussed below) may be considerably lower.

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

Deferred taxes were not provided for undistributed earnings of the Company's foreign subsidiaries. Currently, the Company does not intend to distribute any amounts of its undistributed earnings as dividends. The Company intends to reinvest these earnings indefinitely in the foreign subsidiaries and pay down its debt. Accordingly, no deferred income taxes have been provided in respect of these subsidiaries. If these earnings were distributed to Israel in the form of dividends or otherwise, the Company would be subject to additional Israeli income taxes (subject to an adjustment for foreign tax credits) and foreign withholding taxes. The amount of undistributed earnings of foreign subsidiaries is immaterial.

f. Law for the Encouragement of Capital Investments, 1959

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

The Israeli parliament enacted a reform to the Investment Law, effective January 2011 (which was amended in August 2013). According to the reform, a flat rate tax applies to companies eligible for the "Preferred Enterprise" status. In order to be eligible for Preferred Enterprise status, a company must meet minimum requirements to establish that it contributes to the country's economic growth and is a competitive factor for the gross domestic product.

The Company's Israeli operations elected “Preferred Enterprise” status, started in 2011.

Benefits granted to a Preferred Enterprise include reduced tax rates. As part of Economic Efficiency Law (Legislative Amendments for Accomplishment of Budgetary Targets for Budget Years 2017-2018), 5777-2016, the tax rate is 16% for all other Areas other than Area A (which was 9% from 2016 onward). Preferred Enterprises in peripheral regions will be eligible for Investment Center grants, as well as the applicable reduced tax rates.

A distribution from a Preferred Enterprise out of the "Preferred Income" would be subject to 15% withholding tax for Israeli-resident individuals and non-Israeli residents (subject to applicable treaty rates), or 20% for dividends which are distributed on or after January 1, 2014 and from “Preferred Income” that was produced or accrued after such date. A distribution from a Preferred Enterprise out of the "Preferred Income" would be exempt from withholding tax for an Israeli-resident company.

g. The New Technological Enterprise Incentives Regime (Amendment 73 to the Investment Law)

In December 2016, the Economic Efficiency Law (Legislative Amendments for Applying the Economic Policy for the 2017 and 2018 Budget Years), 2016 which includes Amendment 73 to the Law for the Encouragement of Capital Investments ("the 2017 Amendment") was published. According to the 2017 Amendment, Technological preferred enterprise, as defined in the Investment, with total consolidated revenues of less than NIS 10 billion, shall be subject to 12% tax rate on income deriving from intellectual property (in development area A—a tax rate of 7.5%).

Any dividends distributed deriving from income from the preferred technological enterprises will be subject to tax at a rate of 20%. The 2017 Amendment further provides that, in certain circumstances, a dividend distributed to a foreign corporate shareholder, would be subject to a 4% tax rate (if the percentage of foreign investors exceeds 90%).

The Company assessed the criteria for qualifying to a “Preferred Technological Enterprise,” status and concluded that the Israeli entity is entitled to the above-mentioned benefits. The Company implemented the new incentives in its tax calculations starting 2017.

h. Uncertain tax positions

A reconciliation of the beginning and ending balances of the total amounts of unrecognized tax benefits is as follows:

	December 31,	
	2017	2018
Balance at the beginning of the year	$ 3,236	$ 4,063
Increase (decrease) related to prior year tax positions, net	153	(658)
Increase related to current year tax positions	674	82
Balance at the end of the year	**$ 4,063**	**$ 3,487**

The Company recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in finance expenses. During the years ended December 31, 2016, 2017 and 2018, the Company recognized approximately $227, $344, and $12 in interest and penalties. The Company had $537, and $549 for the payment of interest and penalties accrued at December 31, 2017, and 2018, respectively.

The Company does not expect uncertain tax positions to change significantly over the next 12 months, except in the case of settlements with tax authorities, the likelihood and timing of which are difficult to estimate.

The Company believes that it has adequately provided for any reasonably foreseeable outcome related to tax audits and settlements, although the final tax outcome of its tax audits could be different from that which is reflected in the Company's income tax provisions and accruals. Such differences could have a material effect on the Company's income tax provision and net income in the period in which such determination is made.

The Company’s tax assessments in Israel and the U.S. for tax years prior to 2014 and 2016 respectively are considered final. The Company has net operating losses in the U.S. from prior tax periods beginning in 2005 which may be subject to examination upon utilization in future tax periods

i. Tax loss carry-forwards

As of December 31, 2018, the Company’s U.S. subsidiaries have net operating loss carry-forwards of $2,555.

Net operating losses in the U.S. may be carried forward through periods which will expire in the years starting from 2031 up to 2035. Utilization of U.S. net operating losses may be subject to substantial annual limitation due to the "change in ownership" provisions of the Internal Revenue Code of 1986 and similar state provisions. The annual limitation may result in the expiration of net operating losses before utilization.

As of December 31, 2018, the Company’s European subsidiaries have net operating loss carry-forwards of $6,849.

As of December 31, 2018, Perion have net operating loss carry-forwards, in Israel, of $12,518.

j. US Tax Reform:

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the “TCJA”). The TCJA makes broad and complex changes to the Code. The changes include, but are not limited to:

- A corporate income tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017 (“Rate Reduction”);
- The transition of U.S international taxation from a worldwide tax system to a territorial system by providing a 100 percent deduction to an eligible U.S. shareholder on foreign sourced dividends received from a foreign subsidiary (“100% Dividend Received Deduction”);
- A one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings as of December 31, 2017;

In March 2018, the FASB issued Accounting Standards Update No. 2018-05, "Income Taxes Topic (740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118" ("ASU 2018-05") to address situations when a registrant does not have the necessary information available, prepared or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the TCJA.

The Company included a $836 provisional estimate for the expected impact of the TCJA as of December 31, 2017, mainly in respect of the corporate rate reduction. During 2018, the Company completed its analysis of the impacts of the Act with an immaterial impact .

NOTE 15: EARNINGS PER SHARE

The table below presents the computation of basic and diluted net earnings per common share:

	Year ended December 31,		
	2016	2017	2018
Numerator:			
Net income (Loss) attributable to ordinary shares - basic	$ 2,848	$ (72,754)	$ 8,121
Net income (Loss) from continuing operations - diluted	$ 2,848	$ (72,754)	$ 8,121
Net loss from discontinued operations – basic and diluted	$ (2,647)	$ -	$ -
Denominator:			
Number of ordinary shares outstanding during the year	25,520,151	25,849,724	25,850,067
Weighted average effect of dilutive securities:			
Employee options and restricted share units	37,783	-	5,158
Diluted number of ordinary shares outstanding - Continuing and discontinued operations	25,557,934	25,849,724	25,855,225
Basic net earnings (loss) per ordinary share			
Continuing operations	0.11	$ (2.81)	$ 0.31
Discontinued operations	(0.10)	$ -	$ -
Net income (loss)	0.01	$ (2.81)	$ 0.31
Diluted net earnings (loss) per ordinary share			
Continuing operations	0.11	$ (2.81)	$ 0.31
Discontinued operations	(0.10)	$ -	$ -
Net income (loss)	0.01	$ (2.81)	$ 0.31
Ordinary shares equivalents excluded because their effect would have been anti-dilutive	3,566,788	5,408,206	4,725,618

NOTE 16: RESTRUCTURING COSTS

Restructuring charges were recorded in connection with restructuring plans in order to reduce workforce, close certain facilities, as well as other cost saving measures and amounted to $700, $0, and $2,100 during 2016, 2017 and 2018, respectively.

NOTE 17: MAJOR CUSTOMERS

A substantial portion of the Company's revenue is derived from search fees and online advertising, the market for which is highly competitive and rapidly changing. Significant changes in this industry or in customer buying behavior would adversely affect the Company's operating results.

The following table sets forth the customers that represent 10% or more of the Company's total revenues in each of the years presented below:

	Year ended December 31,		
	2016	2017	2018
Customer A	49%	46%	45%

NOTE 18: GEOGRAPHIC INFORMATION

The Company operates as one operating segment. Operating segments are defined as components of an enterprise for which separate financial information is evaluated regularly by the Chief Operating Decision Maker, who is the Chief Executive Officer, in deciding how to allocate resources and assessing performance. Over the past few years, the Company has completed several acquisitions. These acquisitions have allowed the Company to expand its offerings, presence and reach in various markets. While the Company has offerings in multiple enterprise markets, the Company's business operates in one segment which is the High Impact Advertising solutions, and the Company's Chief Operating Decision Maker evaluates the Company's financial information and resources and assesses the performance of these resources on a consolidated basis.

The following table presents the total revenues for the years ended December 31, 2016, 2017 and 2018, allocated to the geographic areas in which they were generated:

	Year ended December 31,		
	2016	2017	2018
North America (mainly U.S.)	$ 253,960	$ 213,471	$ 197,440
Europe	47,012	48,146	46,858
Other	11,822	12,369	8,547
	$ 312,794	**$ 273,986**	**$ 252,845**

The total revenues are attributed to geographic areas based on the location of the end-users.

The following table presents the locations of the Company's property and equipment as of December 31, 2017 and 2018:

	December 31,	
	2017	2018
Israel	$ 12,229	$ 11,193
U.S.	4,064	3,997
Europe	1,183	459
	17,476	**$ 15,649**

ITEM 19. EXHIBITS:

No.	Description
1.1	Memorandum of Association of Perion, as amended and restated (translated from Hebrew)
1.2	Articles of Association of Perion, as amended and restated
4.1	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 (1)
4.2	Registration Rights Agreement among the Company and the investors listed therein, dated as of November 7, 2012 (1)
4.3	Share Purchase Agreement by and among Perion Network Ltd., Conduit Ltd. and ClientConnect Ltd., dated as of September 16, 2013 (2)
4.4	Form of Standstill Agreement between Perion Network Ltd. and certain shareholders thereof, dated as of September 16, 2013 (2)
4.5	Form of Registration Rights Undertaking of the Company dated January 2, 2014 (2)
4.6	Perion 2003 Israeli Share Option Plan and U.S. Addendum (1)
4.7	Perion Equity Incentive Plan (2)
4.8	Compensation Policy for Directors and Officers, adopted November 18, 2013, as amended on March 23, 2017 and on February 15, 2018(3)
4.9	Summary Terms and Conditions of Series L Convertible Bonds (4)
4.10	Search Distribution Agreement by and between Microsoft Online, Inc. and Perion Network Ltd., dated July 29, 2014, as amended on September 15, 2014* (4)
4.11	Merger Agreement by and between Perion Network Ltd., IncrediTone Inc., Or Merger, Inc., Interactive Holding Corp. and Fortis Advisors LLC as the Stockholders' Representative, dated November 30, 2015 (5)
4.12	Credit Agreement by and between Or Merger, Inc., Interactive Holding Corp., IncrediTone Inc., SunTrust Bank, Silicon Valley Bank and SunTrust Robinson Humphery, Inc., dated November 30, 2015 (5)
4.13	Securities Purchase Agreement by and between Perion Network Ltd. and the purchasers listed therein, dated November 30, 2015 (5)
4.14	Registration Rights Agreement by and between Perion Network Ltd. and the purchasers listed therein, dated December 3, 2015 (5)
4.15	Amendments No. 1, No. 2, No. 3 and No. 4 to the Credit Agreement by and between Or Merger, Inc., Interactive Holding Corp., IncrediTone Inc., SunTrust Bank, Silicon Valley Bank and SunTrust Robinson Humphery, Inc., dated March 4, 2016, May 8, 2016 October 7, 2016 and March 6, 2018 respectively (3)
4.16	Translation of a certain Credit Agreement by and between Perion Network Ltd. and Mizrahi Tefahot Bank Ltd., effective as of December 17, 2018
4.17	A form of Indemnification Letter Agreement between the Company and its present and future directors and officers (3)
4.18	Search Distribution Agreement by and between Microsoft Ireland Operations Limited and Perion Network Ltd., effective as of January 1, 2018* (3)
8	List of subsidiaries (3)
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	Financial information from Perion Network Ltd.'s Annual Report on Form 20-F for the year ended December 31, 2018 formatted in XBRL (eXtensible Business Reporting Language)

(1) Previously filed with the SEC on April 29, 2013 as an exhibit to our annual report on Form 20-F, and incorporated herein by reference

(2) Previously filed with the SEC on October 15, 2013 as an exhibit to our Report on Form 6-K, and incorporated herein by reference

(3) Previously filed with the SEC on March 27, 2018 as an exhibit to our annual report on Form 20-F, and incorporated herein by reference

(4) Previously filed with the SEC on April 16, 2015 as an exhibit to our annual report on Form 20-F, and incorporated herein by reference

(5) Previously filed with the SEC on March 24, 2016 as an exhibit to our annual report on Form 20-F, and incorporated herein by reference

* Confidential treatment was granted with respect to certain portions of this exhibit pursuant to 17.C.F.R. §240.24b-2. Omitted portions were filed separately with the SEC

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

PERION NETWORK LTD.

By: /s/ Doron Gerstel
Name: Doron Gerstel
Title: Chief Executive Officer

By: /s/ Maoz Sigron
Name: Maoz Sigron
Title: Chief Financial Officer

Date: March 19, 2019

Exhibit 1.1

PERION NETWORK LTD.
AMENDED AND RESTATED MEMORANDUM OF ASSOCIATION

1. Name of the Company: Perion Network Ltd.

2. The objective for which the Company was formed:

   (a) The development, manufacture and marketing of software.

   (b) Any other objective determined by the Company's board of directors.

3. The liability of the shareholders is limited.

4. The share capital of the Company shall be NIS 1,300,000, consisting of 43,333,333 ordinary shares, each having a nominal value of NIS 0.03.

5. Amendments to this Memorandum of Association shall be 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.

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 be NIS 1,300,000, consisting of 43,333,333 ordinary shares, each having a nominal value of NIS 0.03 (the "Ordinary Shares"). 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 instrumentauthorizing 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;

8.2.3. 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.

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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. Notwithstanding the foregoing, and unless otherwise required by the Law, the Company is not required to send notice to its registered holders of any meeting of the shareholders.

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 and 52 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 Law and the Articles, a transaction between the Company and an Office Holder, and a transaction between the Company and another entity in which an Office Holder of the Company has a personal interest, which is not an Extraordinary Transaction (as defined by the Law), shall be approved by the Board or a committee of the Board. Such authorization, as well as the actual approval, may be for a particular transaction or more generally for specific type of transactions.

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 the terms of service of the auditor(s) for the audit services shall be determined by the Board, at its discretion, or a committee of the Board if such determination was delegated to a committee, including undertakings or payments to the auditor(s). The Board shall report the fees of the auditor(s) to the Shareholders at the Annual General Meeting.

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 and the Israeli Securities Law, 5728 - 1968 (the "Israeli Securities 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; and

79.1.4. Reasonable litigation expenses, including attorney fees, incurred by the Office Holder as a result of an administrative enforcement proceeding instituted against him. Without derogating from the generality of the foregoing, such expenses will include a payment imposed on the Office Holder in favor of an injured party as set forth in Section 52(54)(a)(1)(a) of the Israeli Securities Law and expenses that the Office Holder incurred in connection with a proceeding under Chapters H'3, H'4 or I'1 of the Securities Law, including reasonable legal expenses, which term includes attorney fees.

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; or in connection with an administrative enforcement proceeding or a financial sanction. Without derogating from the generality of the foregoing, such expenses will include a payment imposed on the Office Holder in favor of an injured party as set forth in Section 52(54)(a)(1)(a) of the Israeli Securities Law, and expenses that the Office Holder incurred in connection with a proceeding under Chapters H'3, H'4 or I'1 of the Securities Law, including reasonable legal expenses, which term includes attorney fees; 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 and the Israeli Securities 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.

Exhibit 4.16

The following is a translation of the Loan Agreement in Hebrew dated December 17, 2018

(the original Hebrew wording is binding)

Date: December 17, 2018

Client's name: ClientConnect Ltd., Private Company Registration No. 514948470 (hereinafter: the **"Borrower"** or the **"Company")**

Account no.: 616846 in the main business center Tel Aviv (461) (hereinafter: the "**Borrower's Account**")

Address: 26 HaRokmim St., Holon, Azrieli Center – Holon, Bldg. A, fl. 4

Postal address: 26 HaRokmim St., Holon, Azrieli Center – Holon, Bldg. A, fl. 4, Attn. CFO

To
Bank Mizrahi-Tefahot Ltd. (hereinafter: the "**Bank**")

Dear Sir/Madame,

Re: Loan Agreement

We hereby set out in writing the agreements that were reached between us in connection with the loan that you will provide to the Borrower in accordance with the provisions set forth in this Agreement. In addition to the provisions set forth in this Agreement, the term of the loan that will be provided to the Borrower shall be in accordance with and subject to the "Application for Opening an Account and/or Changes in an Account" and the "Account Management Booklet" and the "Credit Booklet for a Commercial Borrower" including all annexes and amendments thereof according to which we engaged with the Bank and subject to the specific loan agreement we made and/or we will make with the Bank, an example of which is hereby enclosed as **Annex A** (hereinafter collectively: the "**Credit Documents**") and everything stated in the Credit Documents including all terms and conditions thereof shall apply and shall be binding in anything related to the loan.

The provision of the loan is conditional on the satisfaction of all the preliminary conditions as stated in Section 3 hereunder (hereinafter: the "**Additional Conditions**") and subject to the signing of the Bank on this Agreement.

1. **Long-term loan (**hereinafter: the **"Loan"):**
   The details of the Loan as agreed between the Bank and the Borrower are as follows:

The following is a translation of the Loan Agreement in Hebrew dated December 17, 2018

(the original Hebrew wording is binding)

1.1. **<u>Loan Amount</u>** – a foreign currency loan in the amount of USD 25M, that may be withdrawn until January 15, 2019 (hereinafter: the "**Expiration of Withdrawal Period**");

1.2. **<u>Type of interest</u>** – the Loan will bear annual LIBOR interest for three months + 5.7%.

1.3. **<u>Payment of the Loan Fund</u>** – 12 equal and consecutive payments made every three months as of March 2019 according to the amortization schedule provided to the Borrower with the Loan.

1.4. **<u>Payment of interest</u>** – as of _________, in consecutive installments made every three months, according to the amortization schedule provided to the Borrower with the Loan.

1.5. **<u>Fees</u>** –

<u>Documents preparation fees</u> – during the first quarter of 2019 the Borrower will pay a documents fee in the amount of USD 135,000, including in connection with the preparation of the financing documents in Israel and abroad and the registration of the collaterals in the relevant registers.

<u>Commitment fees</u> – upon provision of the Loan the Borrower will pay a commitment fee in respect of the period as of the date of signing this Agreement and until the Loan is provided in practice, at an annual rate of 1.5% that will be calculated for the total Loan amount (USD 25M). To the extent that the Loan is not provided for any reason, the fees will be calculated and paid for the period between the date of signing this Agreement and until Expiration of the Withdrawal Period and shall be paid upon Expiration of the Withdrawal Period.

<u>Early repayment charge</u> – the Borrower shall be entitled to repay the Loan in early repayment, subject to payment of early repayment charge in accordance with the provisions set forth in **<u>Annex 1.5</u>** hereby enclosed with this Agreement.

1.6. The Loan amount will be transferred to the Borrower's account, or to an account in the Borrower's name in the branch of the Bank abroad. The Bank may, at any time and subject to the provisions set forth in any law, transfer the Loan from one branch to another – including to a branch abroad, provided that the Borrower shall not incur any additional costs in connection with such transfer as aforesaid.

The following is a translation of the Loan Agreement in Hebrew dated December 17, 2018

(the original Hebrew wording is binding)

2. **Instructions regarding provision of the Loan**

The Borrower hereby gives the following irrevocable instructions to the Bank:

A. Upon provision of the Loan – to pay in a final and absolute manner the full credit that the Bank provided to the Borrower until the date of signing this Agreement, including the credit that was provided to the Borrower by virtue of the Master Agreement dated May 9, 2017 (hereinafter: the "**Master Agreement**") (including all interests, fees, expenses and charges in connection therewith). It is clarified that no early repayment charge will be paid in connection with the payment of the credit by virtue of the Master Agreement. Upon payment of the existing credit, all credit limits in the Borrower's Account will be canceled, including the entire commitments of the Borrower and Perion Network Ltd., Company Registration No. 512849498 (hereinafter: the "**Parent Company**") by virtue of the Master Agreement. Until and no later than six months as of the registration date of the charges stated hereunder, the Bank shall deliver to the Borrower, at its request, a document referred to the Registrar of Companies confirming the cancellation of charge no. 2 in the Registrar of Companies.

And –

B. Upon provision of the Loan – to transfer to SunTrust Bank, in its capacity as administrative agent by virtue of the Loan Agreement dated November 30, 2015 (hereinafter: "**SunTrust**") the amount required in the letter of intent stated in Section 3.2.

3. Preliminary conditions for provision of the Loan:

3.1. The Borrower opened account no. 616846 in the main business center of the Bank in Tel Aviv (461) (hereinafter: the "**Borrower's Account**"), signed all the customary credit documents in the Bank and provided all protocols and approvals by its attorneys as customary in the Bank.

3.2. The Borrower provided to the Bank a letter of intent from SunTrust, according to which upon the transfer of the full amount stated in the letter of intent SunTrust will eliminate all the charges registered in its favor on the Borrower's assets, the Parent Company and Undertone, within its meaning hereunder, in Israel and abroad in any register, in the form hereby enclosed as **Annex 3.2** of this Agreement.

The Borrower declares and affirms that except for:

(a) Rights of lien and setoff in favor of banks in connection with the current management of accounts during the ordinary course of business;

(b) Charges made in favor of the Bank and in favor of SunTrust that will be eliminated in accordance with the provisions set forth in Section 2(a) and this Section 3.2;

(c) An undertaking for a negative pledge dated July 13, 2014 from the Parent Company to Bank Leumi le-Israel Ltd.;

(d) An undertaking for a negative pledge of the Parent Company in accordance with a Deed of Trust for the bonds (Series K);

(e) A charge on the deposits of Intercept Interactive Inc. dba Undertone (hereinafter: "**Undertone**") in the amount of approximately USD 1,200,000 made in favor of HSBC Bank USA (hereinafter: "**HSBC**") in connection with the lease guarantees;

(f) Charges on office equipment (floating charge for the purchase of property) of Undertone made in favor of CIT Bank, N.A. and Steelcase Financial Services Inc.; and

(g) Deposits in the amount of USD 138,000 of Undertone in connection with a shared work space, deposited as a collateral with the lessor of the shared work space;

Its entire assets and the assets of the Parent Company and of Undertone, in whole or in part, are free and unencumbered from any charge, pledge, mortgage, attachment, expropriation, lien, setoff, retention of title clause, trust, debt, claim, preemptive right, right of refusal, tag-along right, option and any other or additional third-party rights of any kind.

In addition, the Borrower will take measures for the purpose eliminating the charges made in favor of SunTrust, as stated above.

3.3. The Borrower and the Parent Company provided a letter bearing their signature in the form hereby enclosed as **Annex 3.3**.

3.4. For the purpose of assuring the fulfillment of the entire obligations and undertakings of the Borrower towards the Bank, the Borrower provided to the Bank the entire collaterals and signed and/or caused the signing of deeds of pledge in the customary form of the Bank and provided the protocols and the advocate confirmations in the customary form of the Bank:

3.4.1. A senior floating charge for an unlimited amount on the entire property, moneys, assets and rights of any kind of the Borrower and a senior fixed charge, for an unlimited amount, on the Borrower's reputation, fixed assets, the rights of the Borrower to receive payments from Undertone and from Interactive Holding Corp., its intellectual property, documents and tradable instruments, and all as stated in the bond in the form hereby enclosed as **Annex 3.4.1**.

It is agreed that the floating charge will include a provision stipulating that the Borrower shall be entitled to create in favor of any third-party senior fixed charges on a fixed asset whose purchase will be financed in practice by the said third-party in whose favor the fixed lien will be registered, however except for shares or other rights in corporations (hereinafter: "**Floating Charge for the Purchase of Property**"), on the condition that: (a) each Floating Charge for the Purchase of Property will be used by its recipient as a collateral for the obligations and the undertakings of the Borrower towards that party in respect of the credit that was actually used for the purpose of purchasing that specific asset and (b) the bond according to which the Floating Charge for the Purchase of Property will be created will include an express clause stipulating that the Floating Charge for Purchase of Property will be canceled forthwith upon repayment of the credit that was provided for the purpose of the purchase of the charged asset.

3.4.2. A senior fixed charge, for an unlimited amount on all moneys, assets, deposits and rights in the Borrower's Account, as stated in the deed of pledge of moneys, assets, deposits and rights in the account, in the form enclosed as **Annex 3.4.2**.

3.4.3. A senior fixed charge in favor of the Bank, limited to an amount of USD 33M on all the assets and property of Undertone, including its right to receive payments from its customers and charges on all its bank accounts (SunTrust Bank and HSBC) and a guarantee limited to an amount of USD 33M of Undertone.

Undertone will furnish to the Bank the Security Agreement, Guarantee, Deposits Account Control Agreements, and additional documents that are required for the purpose of providing the said collaterals – and all in the forms enclosed as **Annex 3.4.3**.

The Borrower will furnish to the Bank a legal opinion to the satisfaction of the Bank and that includes, *inter alia*, a confirmation stating that the charge on the assets of Undertone is valid towards any third-party, and a confirmation regarding registration of the charges in the United States. The Borrower and Undertone will act for the purpose of amending the registered charge, in such manner that the charge will be in effect until the full and final settlement of the debts and undertakings of the Borrower towards the Bank.

3.4.4. The Parent Company signed a guarantee for a limited amount of USD 33M in the form hereby enclosed as **Annex 3.4.4** of this Agreement and furnished to the Bank a resolution of the company in connection with the creation of the guarantee to the satisfaction of the Bank.

3.4.5. The Parent Company signed a negative pledge letter, in the form hereby enclosed as **Annex 3.4.5**. Such negative pledge letter as aforesaid will include a provision stipulating that the Parent Company shall be entitled to create charges for the purpose of supporting the current operations of the group members during the ordinary course of business, such as charges on deposits against guarantees (including against bank guarantees), and on the condition that the total amount of the charged assets of the Parent Company for the purpose assuring the aforesaid current operations will not be greater than USD 1,000,000.

3.4.6. Deposit in the Borrower's Account – the Borrower deposited in the Borrower's Account cash in an amount that will not fall below, at any time, 25% of the balance of the revalued Loan and in any event will not fall below $5M.

It is agreed that when the balance of the Loan principal in the Bank falls below $5M (and on the condition that the entire payments of the Loan until that time were fully and timely paid (and considering any waiver and/or delay of the payment date that was made with the approval of the Bank)) – the balance of the cash deposited in the Borrower's Account shall not fall below 35% of the balance of the revalued Loan.

Deposit in accounts charged in favor of the Bank – without derogating from the foregoing, the total amount of cash deposited in the Borrower's Account and in the accounts of Undertone that are charged in favor of the Bank as part of the charges as stated in Section 3.4.3 above (hereinafter: the "**Undertone Accounts**") shall not fall below at any time from USD 10M. For the avoidance of doubt, within the framework of the calculation of the aforesaid amount, deposits that are charged in favor of any third-party, or in which a third-party has rights of setoff or lien in connection therewith (including in favor of HSBC or SunTrust Bank), will not be included.

3.5. There shall be no statutory preclusion or any other preclusion stemming from the procedures of the Bank regarding the provision of the Loan and the Loan shall not be provided in violation of the legal provisions and/or in contravention of the instructions set forth by the Supervisor of Banks (including Proper Conduct of Banking Business Directive no. 311 "Minimal capital ratio" and Directive no. 313 "Limitations on the Indebtedness of a Borrower and of a Group of Borrowers" and/or any other directive superseding the same) and in this regard will not result in deviation from the liability limitations of a borrower and/or a group of borrowers and/or violation of the Bank procedures. The Bank declares that as of the date of signing this Agreement it is not aware of any preclusion and/or deviation as aforesaid.

The following is a translation of the Loan Agreement in Hebrew dated December 17, 2018

(the original Hebrew wording is binding)

4. **Financial covenants**

4.1. Definitions –

"**EBITDA**" – Earnings before interest, taxes, depreciation and amortization, financing expenses/income, other expenses/income, depreciation and amortizations, expenses for equity based compensation and one-time expenses for the acquisition of companies in the last four subsequent quarters as of the review date (including, and for the avoidance of doubt, the quarter ending on the date of the review), and all in accordance with the consolidated financial statements of the Parent Company).

"**Net final debt**" – a short-term and long-term debt from banks and from other financial institutions, liabilities in respect of finance lease (however not operating lease), bonds and convertible bonds and with deduction of cash and cash equivalents and short-term deposits (up to one year), and all on consolidated basis and as stated in the financial statements of the Parent Company.

"**Breach Event**" – any of the events whose occurrence will entitle the Bank to call for immediate repayment the Loan or any part thereof. For the avoidance of doubt, the granting of a grace period, if provided with respect to the Breach Event, shall not delay the date of occurrence of the Breach Event, and the Breach Event shall be deemed as such as of the commencement of the circumstances that give rise to the said event, even prior to expiration of the grace period and irrespective of any other period of time.

4.2. In addition to the grounds for calling for immediate repayment stated in each document signed by the Borrower, the Bank shall be entitled to call the Loan for immediate repayment if, until the final and absolute payment date of the bonds (Series K) that the Parent Company issued to the bondholders (hereinafter respectively: the "**Bonds**" and the "**Bondholders**") one or more of the events stated in Sections 4.2.1 – 4.2.5 occurs with respect to the Parent Company:

4.2.1. The equity of the Parent Company, according to its consolidated financial statements (including minority rights) at the end of each calendric quarter, falls below USD 120M.

4.2.2. The ratio between the net financial debt, at the end of each calendric quarter, and the amount of EBITDA of the Parent Company as of that date, according to its consolidated financial statements, is greater than 2.5.

4.2.3. The amount of EBITDA of the Parent Company, based on its consolidated financial statements at the end of each calendric quarter, falls below an amount of NIS 57,394,400 (40% of the total par value of the Bonds (Series K) as listed in the Stock Exchange in the past).

4.2.4. The Parent Company will hold (on consolidated basis) at any time, cash, cash equivalents and short-term deposits (up to one year) for an amount lower than USD 10M (and in the period of the six months that preceded the payment date of any bonds principal – an amount lower than the amount equal to the principal and interest that the Parent Company is obligated to pay to the Bondholders on the next payment date of the principal).

4.2.5. The Parent Company shall declare or distribute a dividend (hereinafter: the "**Distribution**") in contravention of one or more of the following rules:

1. The Parent Company shall not perform a Distribution if and to the extent that as a result of the Distribution the total amount of equity of the Parent Company according to its consolidated financial statements (including minority rights) prior to the resolution on the Distribution, with deduction of the Distribution amount, falls below USD 150M.

2. The performance of the Distribution is stipulated on the condition that as of the end of the calendric quarter that preceded the date of adopting the resolution on the Distribution, the Parent Company did not violate any of the financial covenants set out in Sections 4.2.1 – 4.2.4 above.

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3. No Distribution shall be performed, in each calendric year, for an amount that is greater than 50% of the net annual profit of the Parent Company on consolidated basis in that calendric year.

4. No Distribution shall be made from unrealized revaluation gains.

5. No Distribution shall be performed if the ratio set out in Section 4.2.2, as of the date of the last consolidated financial statement of the Parent Company that was published prior to the resolution on the Distribution is greater than 1.5.

6. No Distribution shall be performed if the balance of retained earnings of the Parent Company on consolidated basis after the Distribution falls below USD 31.5M.

4.3. It is agreed that upon the full and final repayment of the Bonds, in addition to the grounds for calling for immediate repayment stated in each document signed by the Borrower, the Bank shall be entitled to call the Loan for immediate repayment, if one or more of the following events occurs in the Parent Company (instead of the events stated in Sections 4.2.1 – 4.2.5 above):

4.3.1. The equity of the Parent Company, according to its consolidated financial statements (including minority rights) at the end of each calendric quarter falls below USD 80M.

4.3.2. The ratio between the net financial debt, at the end of each calendric quarter and the EBITDA amount of the Parent Company as of that date, according to its consolidated financial statements, is greater than 2.25.

4.3.3. The Parent Company will keep (on consolidated basis) at any time, cash, cash equivalents and short-term deposits (up to one year) in an amount lower than USD 10M, or an amount that is lower than an amount equal to the principal and the interest that the Borrower is obligated to pay to the Bank on the next principal payment date (whichever is lower).

4.3.4. The Parent Company declares or distributes a dividend in contravention of one or more of the rules set out hereunder:

1. The Parent Company will not perform a Distribution if, as a result of the Distribution, the total amount of the equity of the Parent Company according to its consolidated financial statements (including minority rights) prior to the resolution on the Distribution, with deduction of the Distribution amount, falls below USD 115M.

2. The performance of the Distribution is stipulated on the condition that as of the end of the calendric quarter that preceded the date of adopting a resolution on the Distribution, the Parent Company is not in violation of any of the financial covenants set out in Sections 4.3.1-4.3.3 above.

3. No Distribution shall be performed, in each calendric year, for an amount that is greater than 50% of the net annual earnings of the Parent Company on consolidated basis in that calendric year.

4. No Distribution shall be performed from unrealized revaluation gains.

5. No Distribution shall be performed if the financial ratio set out in Section 4.3.2 as of the date of the last financial statement of the Parent Company that was published prior to the resolution on the Distribution is greater than 1.35.

4.4. Notwithstanding the aforesaid, it is agreed that deviation of up to 10% from the financial covenant stated in Section 4.3.1 or 4.3.2, as the case may be, in a specific quarter, does not give rise to grounds for immediate repayment, and on the condition that in the subsequent quarter the Parent Company returned to observe the relevant financial covenant, as stated above.

4.5. It is agreed that the Borrower shall be entitled to perform a Distribution or the disburse, whether directly or indirectly, sums from the earnings or the capital or from any other source to its shareholders, on the condition that on the date of the said Distribution (a) no Breach Event that was not cured occurred and (b) there is no default in payment of the Loan.

4.6. A review of the financial covenants set out in this Section 4 above (hereinafter: the "**Criteria**") shall be performed each quarter according to the annual and quarterly consolidated financial statements of the Parent Company. No later than five (5) business days as of the date of delivering the financial statements of the Parent Company as stated in Section 7 hereunder, the Borrower shall deliver a calculation of all data in connection with the Criteria with the approval and signature of the CEO or the CFO of the Borrower.

4.7. In any event in which the Borrower makes a commitment towards any third-party to meet any financial ratios, and this commitment includes conditions regarding compliance with data or financial ratios that examine data or ratios that are different than the one examined in the financial ratios subject matter of this Agreement, or examine data or ratios that are similar however are stricter towards the Borrower compared to the requirements imposed on the Borrower within the framework of the financial ratios subject matter of this Agreement (hereinafter in this Section: "**Commitment towards a Third-Party**") the Borrower undertakes to notify the Bank promptly about the same. In such circumstances as aforesaid, the Bank reserves the right to notify to the Borrower at any time regarding the addition to this Section of financial ratios out of the Commitment towards a Third-Party and/or regarding the equalization of the terms of the financial ratios set out in this Section to the terms of the financial ratios set out in the Commitment towards a Third-Party, and this Agreement shall be deemed to have been amended accordingly, and the signature or the approval of the Borrower or any other party shall not be required in connection therewith.

4.8. It is clarified that the Criteria are based on accounting standards, accounting rules, estimates and accounting policy (hereinafter: the "**Accounting Treatment**") as applied in the last financial statements of the Parent Company, as of the date of signing this Agreement (hereinafter: the "**Last Statements**").

An Accounting Treatment that is different than the one based on which the Last Statements were made including, but not limited to, as a result of application of international financial reporting standards (IFRS), new/other/any accounting standards in Israel or abroad, a change of estimates and/or a change of accounting policy (the aforesaid hereinafter, individually and collectively: "**New Accounting Treatment**") may result in changes that will affect the Criteria. Notwithstanding the aforesaid, it is agreed that changes in the Accounting Treatment emanating from the application of the ASC 842 Standard regarding operating lease shall not be deemed as New Accounting Treatment and therefore will not require an update for the financial covenants.

Therefore, the Borrower agrees as follows:

At any time the Bank finds that changes are about to occur in the financial statements as a result of a New Accounting Treatment, the Bank shall be entitled, in consultation with the Borrower, to notify the Company regarding the revisions that are required by the Bank in the Criteria (hereinafter: the "**Revised Criteria**") for the purpose of making the Criteria compliant with such changes as aforesaid, for the purpose of making the Criteria compliant with the original financial purpose according to which the Criteria were set. In the event the Bank notified the Company about the Revised Criteria – the aforesaid Criteria shall bind the Borrower as of the Bank delivered its notice, and this Agreement shall be deemed to include the Revised Criteria, as of the date the Bank delivered its notice as aforesaid.

5. **Additional undertakings**

5.1. The Borrower hereby undertakes to cause that the entire Microsoft Payments (within their meaning hereunder) and clients that engage with the Borrower after the date of signing this Agreement, shall be made solely to the Borrower's Account and the Borrower will indicate this Account in all the invoices the Borrower issues.

5.2. The Borrower shall not provide and shall not undertake to provide to any third-party (including to related entities thereto), in any manner and form, any loans or credit and/or assistance from the Borrower for the purpose of receiving loans and/or credit (including the provision of a collateral) and/or guarantees from the Borrower – without obtaining the prior and written approval the Bank in connection therewith. Notwithstanding the said, it is agreed that the Borrower shall be entitled to provide guarantees to related entities, provided that the guarantees are provided during the ordinary course of business and for a cumulative amount that shall not be greater than USD 2M.

5.3. The Borrower declares and affirms that the two subsidiaries owned by the Borrower (ClientConnect B.V. and ClientConnect Inc.) have no assets or have assets for marginal values and it intends to act for the purpose of their liquidation.

The other members of the group, except for the Borrower, the Parent Company and Undertone, are companies that are immaterial to the operations of the Group.

"**Group Members**" – the companies listed in **Annex 5.3**.

The Borrower undertakes that to the extent that one of the said companies (or additional companies that join the Group) becomes a material member, the said company will sign an undertaking not to charge its assets (negative pledge) to the satisfaction the Bank.

6. **Retention of the holdings and the structure of the Borrower**

6.1. The Borrower declares that the issued and paid-up share capital of the Company (based on full dilution) as of the date of signing this Agreement is held by the Parent Company.

6.2. The Parent Company will hold at any time a minimum of 50.01% of each of the means of control in the Borrower (in full dilution) and will control the Borrower (within the meaning of the term "**control**" and "**means of control**" in the Securities Law 5728-1968).

Notwithstanding the aforesaid, the Bank declares that it is aware that the Parent Company and the Borrower have commenced a procedure for the purpose of examining the restructuring and/or any merger between them and whose details are unclear as of the date of signing this Agreement. Therefore, the Bank and the Borrower agree that prior to performing the restructuring between the Parent Company and the Borrower, the Bank, the Borrower and the Parent Company will consider and will operate jointly for the purpose of reaching agreements about the necessary changes in the collaterals and in the financial covenants, including the replacement of the collaterals stated in Section 3.4 above with new collaterals. To the extent that the Bank and the companies fail to reach agreements as aforesaid, the Bank shall be entitled to instruct the Borrower to repay immediately the full amount of the Loan, prior to performing the restructuring, and in such circumstances as aforesaid the Borrower undertakes not to perform restructuring however only after repaying to the Bank the full amount of the Loan.

"**Restructuring**" – shall mean the merger or split (within the meaning of these terms in Part E'2 of the Income Tax Ordinance [New Version] or in the Companies Law, including merger and reorganization, whether as an absorbing company and whether as a target company and any action performed **not** during the ordinary course of business whose consequence is the acquisition of assets and/or liabilities of another entity, including a settlement or an arrangement pursuant to the third chapter in the ninth part of the Companies Law, or the transfer of assets in return for shares or other securities or for another consideration (whether in one transaction and whether in a series of transactions) and any transaction as a result of which the client purchases, whether directly or indirectly, the main part of the assets of another corporation or the shares of another corporation that grant it control in that corporation.

7. **Reports**

The Borrower shall furnish the following reports to the Bank:

7.1. The annual audited financial statements of the Borrower, the Parent Company (consolidated) and Undertone immediately after signing thereof, and no later than April 30 of each calendric year. In the event the Borrower publishes additional consolidated or other financial statements in Israel or abroad, audited or unaudited, the Company shall deliver to the Bank a copy of the said reports as shortly as possible after their publication.

7.2. A balance sheet and a quarterly income statement (without notes) of the Borrower, signed by the CEO or the CFO of the Borrower, no later than 60 days as of the end of each calendric quarter.

7.3. Quarterly consolidated financial statements of the Parent Company (reviewed) until and no later than 60 days as of the end of each calendric quarter.

7.4. In ten days as of the end of each calendric month – the balance of funds deposited in the accounts of Undertone and that are charged to the Bank on the last day of the previous month.

7.5. In addition to the said, and without derogating from the foregoing, the Borrower shall deliver to the Bank, upon receiving the demand of the Bank, information regarding the business of the Borrower and the Parent Company, their financial position and the bank obligo of each.

7.6. The Borrower will deliver written notice to the Bank in seven (7) business days, after the Borrower learns about: (a) a material adverse effect that affected the Borrower's position emanating from a change in its business, operations or its financial position; (b) any information that can prove that the financial statements that were delivered in accordance with this Agreement are inaccurate or incorrect and the information that the Borrower provided to the Bank is no longer accurate in any material respect; (c) any material matter relating to the collaterals that were provided and/or that will be provided by the Borrower for the purpose of securing its debts to the Bank and (d) any matter relating to the contract made between the Parent Company and Microsoft Ireland Operations Limited (hereinafter respectively: "**Microsoft**" and the "**Microsoft Agreement**").

7.7. The Borrower undertakes to deliver a written report to the Bank immediately after learning about the occurrence of any Breach Event.

8. **Representations**

The Borrower declares, represents and warrants towards the Bank that:

8.1. It is a company that was lawfully incorporated and registered in Israel and it is an active and existing company.

8.2. The entire undertakings of the Borrower, the Parent Company and Undertone in accordance with this Agreement, including the collaterals, are valid undertakings of the Borrower, the Parent Company and Undertone, and each of these undertakings are binding and enforceable.

8.3. The signing of the Borrower on this Agreement and its performance by the Borrower: (1) do not cause and will not cause a breach of the Borrower of any agreement to which the Borrower is a party and/or grant to any person or entity any right and/or grounds to demand immediate repayment of the debts and liabilities of the Borrower and/or (2) do not constitute and will not constitute any violation and/or deviation from any legal provision; and/or (3) do not cause and will not cause the violation of any license and/or permit granted to the Borrower.

8.4. No Breach Event occurred at the time of signing this Agreement.

8.5. As of the date of signing this Agreement: (a) save as provided in the last financial statements of the Parent Company that were delivered to the Bank, there is no proceeding, claim, arbitration, litigation or any administrative proceeding pending against the Borrower, the Parent Company and/or Undertone and, to the best of knowledge of the Borrower, no such proceedings are expected to commence against any thereof; (b) no motion for the appointment of a receiver and/or a liquidator was filed against the Borrower, the Parent Company and/or against Undertone and no order with respect to any of these matters was issued against any thereof, and to the best of knowledge of the Borrower no motions or orders as aforesaid are expected to be filed or issued against them as aforesaid; and (c) the Borrower, the Parent Company and Undertone did not adopt a resolution regarding voluntary liquidation.

8.6. The Borrower, the Parent Company and Undertone did not take credit and/or issued guarantees bearing its signature of any kind towards another, save as provided in Section 5.2 above and save as provided in **Annex 8.6**.

8.7. Save as provided in **Annex 8.7**, the Borrower, the Parent Company and Undertone did not enter into and are not a party to any agreement with any of their related parties and there is no agreement, undertaking, understanding, whether verbal or written in any matter between the Borrower and/or the Parent Company and/or Undertone and their related parties and/or related entities thereof and/or related parties therein – no loans were provided to them by the Borrower and/or the Parent Company and/or Undertone and no benefit was provided to any thereof.

8.8. The entire information that was provided by the Borrower to the Bank is true and duly reflects the state of business of the Borrower and/or the Parent Company and/or Undertone as of the date of signing this Agreement. In addition, the Borrower has no information in connection with the Borrower and/or the Parent Company and/or Undertone that was not presented to Bank, and if it had been presented to the Bank, it would have resulted in circumstances that the Bank would have avoided from providing the Loan and/or would have resulted in circumstances in which the Bank would not have agreed to rely on the collaterals for the purpose of securing the repayment of the Loan, or that can limit in any manner the manner of realization of the Bonds, or any part thereof.

8.9. A copy of the Microsoft Agreement as reported to the U.S. SEC in the annual report of the Parent Company is enclosed as **Annex 8.9**, when some of its commercial data were omitted in accordance with an NDA that was signed between the Parent Company and Microsoft.

9. The parties agree that each of the following events, in addition to the aforesaid events, shall also be deemed as part of the events that give rise to grounds for the Bank for calling the credit for immediate repayment:

9.1. In the event a material adverse change in the Microsoft Agreement occurs and/or in the event the Microsoft Agreement is terminated (except for termination on the grounds of the cessation of operations of Bing, as stated in Section 10, and to which the provisions set forth in Section 10 hereunder shall apply);

9.2. In the event the Microsoft Agreement is not extended;

9.3. In the event the authorization for the performance of the Microsoft Agreement (including amendments thereof) is granted to any entity other than the Borrower;

9.4. In the event the Microsoft Agreement is extended under conditions that constitute a material adverse change compared to the present Agreement;

It is agreed that for the purpose of this matter a **material adverse change** shall occur if **(a)** the Borrower ceases to be the sole party entitled to the payments from Microsoft by virtue of the Agreement (including a new agreement that will be signed); or **(b)** in the event of a decrease of more than 40% on the monthly income of the Borrower, by virtue of the Agreement (following a monthly review), compared to the income in the previous month, or the average monthly income of the Borrower in the last 12 months in each review date. It should be noted that even projected decrease in the monthly income shall be deemed as a material change for the purpose of this Agreement.

9.5. In the event any of the undertakings set out in this Agreement is breached. It is agreed that a delay in the submission of the reports as stated in this Agreement and that is not greater than ten (10) business days shall not give rise to grounds for immediate repayment.

9.6. If one of the grounds stated in Sections 24.1.2, 24.1.3, 24.1.4, 24.1.6, 24.1.8, 24.1.9, 24.1.11, 24.1.12, 24.1.13, 24.1.14, 14.1.15, 24.1.16 in the booklet of the general terms in credit operations signed by the Borrower holds true with respect to the Parent Company or Undertone (*mutatis mutandis*).

10. It is agreed that in the event Microsoft notifies the Borrower or the Parent Company that after expiration of one year as of the date of its notice the Microsoft Agreement is terminated as a result of the termination of operation of Bing – in such circumstances the Borrower shall notify the Bank regarding the aforesaid termination forthwith and shall repay the full amount of the Loan in a final and absolute manner (including interests, charges and early repayment charges) until expiration of a period of nine months as of the date of the notice. Notwithstanding the said, the Bank shall be entitled to call the Loan for immediate repayment if, as a result of the said termination, a material adverse change occurs or in the event other grounds for immediate repayment arise.

11. For the avoidance of doubt, the aforesaid is not intended to grant rights to any third-party, and shall not constitute a representation on which any third-party may rely.

12. The entire annexes of this Agreement constitute an integral part thereof and everything stated in the annexes shall supplement and add to the said in this Agreement.

13. This Agreement shall come into operation subject to its signing hereof by the Borrower and after its return to the Bank until and no later than December 17, 2018 and subject to the signature of the Bank thereon.

14. In the event of discrepancy between the provisions set forth in this Agreement and the provisions set forth in the credit documents, the provisions set forth in this Agreement shall take precedence. In any other event the provisions set forth in this Agreement and the provisions set forth in the credit documents shall be deemed to supplement each other.

Sincerely,

ClientConnect Ltd.

We confirm the aforesaid

____

Bank Mizrahi-Tefahot Ltd.

The following is a translation of the Loan Agreement in Hebrew dated December 17, 2018

(the original Hebrew wording is binding)

Annex 8.7
Related party transactions

Agreement with Conduit Shareholders

As a condition precedent to the closing of ClientConnect Acquisition on January 2, 2014, Conduit spun off its ClientConnect business. As a result of the ClientConnect Acquisition, two office holders of Conduit – Dror Erez and Roy Gen – became members of the Board of Directors of Perion Network Ltd. ("**Perion**"), and the major shareholders of Conduit also became major shareholders of Perion. For information about the registration rights agreement entered into by Perion in connection with the ClientConnect acquisition, see Item 10.C "Additional Information—Material Contracts—Agreements Relating to the ClientConnect Acquisition" under the most recent Form 20-F of Perion. Such directors and major shareholders are parties to such agreement.

Indemnification Agreements

Perion has entered into indemnification and exculpation agreements with each of its current office holders and directors exculpating them to the fullest extent permitted by the law and its articles of association and undertaking to indemnify them to the fullest extent permitted by the law and its articles of association. See also "Item 10B. — Exculpation, Insurance and Indemnification of Directors and Officers" in on the most recent Form 20-F of Perion.

Employment and Consulting Agreements

Perion has or has had employment, consulting or related agreements with each member of its senior management, the terms of which are consistent with the Company's compensation policy and any applicable law. For more information on employment and consulting agreements see "Item 6B. — Compensation" in the most recent Form 20-F of Perion.

In addition, Perion has entered into a service agreement with its chairman of the board, Mr. Eyal Kaplan, effective as of May 9, 2018; for information about the terms of the agreement please refer to the proxy filed on June 28, 2018 on form 6-K.

ClientConnect Ltd. ("ClientConnect") and Intercept Interactive Inc. dba Undertone ("Undertone")

Neither ClientConnect Ltd. nor Intercept Interactive has entered into any related party transactions of the nature described above.

Exhibit 12.1

CERTIFICATIONS

I, Doron Gerstel, certify that:

1. I have reviewed this annual report on Form 20-F of Perion Network Ltd.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;

4. The Company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and

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

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: March 19, 2019

/s/ Doron Gerstel
Doron Gerstel
Chief Executive Officer

Exhibit 12.2

CERTIFICATIONS

I, Maoz Sigron, certify that:

1. I have reviewed this annual report on Form 20-F of Perion Network Ltd.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;

4. The Company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and

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

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: March 19, 2019

/s/ Maoz Sigron
Maoz Sigron
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, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Doron Gerstel Chief Executive Officer of the Issuer, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

1. The Report containing the financial statements fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. Information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Issuer.

Date: March 19, 2019

By: /s/ Doron Gerstel
Doron Gerstel
Chief Executive Officer

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, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Maoz Sigron, Chief Financial Officer of the Issuer, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

1. The Report containing the financial statements fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. Information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Issuer.

Date: March 19, 2019

By: /s/ Maoz Sigron
Maoz Sigron
Chief Financial Officer

Exhibit 15.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements on Form F-3 (Registration Nos. 333-208785 and 333-195794) and Form S-8 (Registration Nos. 333-208278, 333-203641, 333-193145, 333-192376, 333-188714, 333-171781, 333-152010, 333-133968 and 333-216494), of our reports dated March 19, 2019, with respect to the consolidated financial statements of Perion Network Ltd. and its subsidiaries, which included in this Annual Report on Form 20-F of the Company for the year ended December 31, 2018.

/s/ KOST FORER GABBAY & KASIERER

Tel Aviv, Israel
March 19, 2019

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