

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, 2021

OR

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

OR

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

Date of event requiring this shell company report _____

For the transition period from _____ to _____

Commission File No. 000-51694

Perion Network Ltd.

(Exact Name of Registrant as specified in its charter)

N/A

(Translation of Registrant's name into English)

Israel

(Jurisdiction of incorporation or organization)

26 HaRokmim Street

Holon, Israel 5885849

(Address of principal executive offices)

Maoz Sigron, Chief Financial Officer

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

26 HaRokmim Street

Holon, Israel 5885849

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

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

Title of Each Class
Ordinary shares, par value NIS 0.03 per share

Trading Symbol(s)
PERI

Name of Each Exchange on which Registered
Nasdaq Global Select Market

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

None
(Title of Class)

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

None
(Title of Class)

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

As of December 31, 2021, the Registrant had outstanding 43,696,723 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 whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

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 on Form 20-F 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 3.110 to \$1.00, the representative exchange rate reported by the Bank of Israel on December 31, 2021.

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, as amended (the “Securities Act”), 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 on Form 20-F to conform those statements to reflect the occurrence of unanticipated events, new information or otherwise.

You should read this annual report on Form 20-F 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 on Form 20-F 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.

Our estimates and forward-looking statements may be influenced by factors including:

- 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, financial condition and results of operations.
- Large and established internet and technology companies, such as Google, Facebook and Amazon, play a substantial role in the digital advertising market and may significantly harm our ability to operate in this industry.
- We depend on supply sources to provide us with advertising inventory in order for us to deliver advertising campaigns in a cost-effective manner.
- The advertising industry is highly competitive. If we cannot compete effectively and overcome the technological gaps in this market, our revenues are likely to decline.
- 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.
- Our search advertising solution depends heavily upon revenue generated from our agreement with Microsoft Bing, and any adverse change in that agreement could adversely affect our business, financial condition and results of operations.
- Our search advertising 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, our revenues and results of operations would be materially adversely affected.
- Should the providers of 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.
- The global COVID-19 health pandemic has had and still has an ongoing adverse effect and could potentially severely affect, our business, results of operations and financial condition due to impacts on our industry, as well as impacts from remote work arrangements, actions taken to contain the virus or treat its impact, and the speed and extent of the recovery.
- A loss of the services of our senior management and other key personnel could adversely affect execution of our business strategy.

- Competition for highly skilled technical and other personnel in Israel is intense, and as a result we may fail to attract, recruit, retain and develop qualified employees, which could materially and adversely impact our business, financial condition and results of operations.
- We have acquired and may continue to acquire other businesses. These acquisitions divert a substantial part of our resources and management attention and could in the future, adversely affect our financial results.
- Our share price has fluctuated significantly and could continue to fluctuate significantly.
- Our business and financial performance may be materially adversely affected by information technology issues, data breaches, cyber-attacks and other similar incidents and other business disruptions.
- 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.
- We depend on third party internet, telecommunication and hosting providers to operate our platforms, 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.
- 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 and subject us to significant legal liability for non-compliance.
- 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.
- 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 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.
- Political, economic and military instability in the Middle East may impede our ability to operate and harm our financial results.

	Page
PART I	
Item 1. Identity of Directors, Senior Management and Advisers	7
Item 2. Offer Statistics and Expected Timetable	7
Item 3. Key Information	7
Item 4. Information on the Company	34
Item 4A. Unresolved Staff Comments	47
Item 5. Operating and Financial Review and Prospects	47
Item 6. Directors, Senior Management and Employees	57
Item 7. Major Shareholders and Related Party Transactions	69
Item 8. Financial Information	71
Item 9. The Offer and Listing	71
Item 10. Additional Information	71
Item 11. Quantitative and Qualitative Disclosures about Market Risk	81
Item 12. Description of Securities Other than Equity Securities	82
PART II	
Item 13. Defaults, Dividend Arrearages and Delinquencies	82
Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds	82
Item 15. Controls and Procedures	82
Item 16. RESERVED	83
Item 16A. Audit Committee Financial Expert	83
Item 16B. Code of Ethics	83
Item 16C. Principal Accountant Fees and Services	83
Item 16D. Exemptions from the Listing Standards for Audit Committees	84
Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers	84
Item 16F. Change in Registrant's Certifying Accountant	84
Item 16G. Corporate Governance	84
Item 16H. Mine Safety Disclosure	85
Item 16I. Disclosure Regarding Foreign Jurisdictions that Prevent Inspection	85
PART III	
Item 17. Financial Statements	85
Item 18. Financial Statements	85
Item 19. Exhibits	86

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**

Reserved.

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, financial condition and results of operation.

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. 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, development of new or more compelling offerings by our competitors and development by our advertising customers of in-house replacement services. Any reduction in spending by, or loss of, existing or potential advertisers would negatively impact our business, financial conditions and results of operation.

Furthermore, the discretionary, non-exclusive nature of our relationships with advertising customers subject 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. In light of the above factors, we seek to diversify our offerings and, as part of our strategy, provide our customers with different advertising solutions and constantly adapt our relationship with our customers to respond to their everchanging needs. As a result, we may be compelled to reduce our rates, offer other incentives or other more compelling pricing models 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, Facebook and Amazon, play a substantial role in the digital advertising market and may significantly harm our ability to operate in this industry.

Google, Facebook and Amazon are substantial players in the digital advertising market and account for a large portion of the digital advertising budgets, along with other smaller players. Such high concentration 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 such players.

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

Google 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 removes all ads from certain sites that violate this standard. In addition, in March 2021, Google announced the phase-out support for third-party cookies in Chrome (which is expected to come into effect in 2023). Moreover, leading mobile operating systems, including Apple iOS and Google Android, have implemented or plan to implement advertising and targeting restrictions within applications running on their platforms.

This, together with other advertisement-blocking technologies incorporated in or compatible with leading internet browsers and operating systems, could impact our (as well as those of our competitors) advertising business. These changes could materially impact the way we do business, and if we or our advertisers and publishers are unable to quickly and effectively adjust and provide solutions to those changes, there could be an adverse effect on our revenue and performance.

The consolidation among participants within the digital advertising market could have a material adverse impact on our business, financial condition 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.

We are currently able to serve, track and manage advertisements for our customers as well as for our own operations, on a variety of networks and websites. The consolidation trend could substantially harm our ability to operate if such consolidated companies decide not to permit us to serve, track or manage advertisements on their websites and/or on our properties, 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 and/or on our properties.

Certain of our primary advertisers and publishers are owned, affiliated with or controlled by a small number of large holding companies. If any of these holding companies decide to reduce, amend or terminate their business relationship with us for any reason, and/or in case there is a rapid and/or significant decline in inventory available to us, it may lead to a material adverse impact on our business, financial conditions and results of operation.

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 financial condition results of operation.

A substantial portion of our advertising revenue is derived from the sale of our digital advertising solutions and we have made significant investments in our ability to deliver different types of advertisements, including high impact advertising, video advertising, CTV and iCTV which are compatible on multiple devices and channels as well as different content monetization solutions for which we partnered with advertising networks in order to be able to serve ads on our properties as well properties of our publishers. Nonetheless, (i) if customers do not embrace our solutions (ii) if our integration with advertising networks is not successful, (iii) if there is a reduction in general demand for digital advertising or in spend for certain channels or solutions, or (iv) if the demand for our specific solutions and offerings decreases, it may lead to a material adverse impact on our business, financial conditions and results of operation.

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

As the digital advertising ecosystem is dynamic, seasonal and challenging, it is hard to predict our future performance, particularly with regard to the effect of our efforts to increase revenue and profitability. If we are unable to continuously improve our systems and processes, adapt to the changing and dynamic needs of our customers or align our expenses with our revenue level, it will impair our ability to be compelling and profitable.

In addition, we may experience in the future an overall decline in advertising spend and demand for our solutions as a result of which we may experience revenue decrease due to competition, market demand or other factors, which could influence our ability to respond to industry developments in order to remain competitive. If we are unable to respond to such changes and timely adapt our business model, we may not be able to sustain growth, meet our business targets or achieve or sustain profitability and our business may be adversely affected.

We depend on supply sources to provide 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, social networks 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 maintain, expand and further develop successful business relationships in order to increase the network of our supply sources.

Our supply sources typically make their advertising inventory available 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, better solutions and advanced technology. 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 specific creative content or advertising formats as well as content adjacent restrictions, 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 which may be competitive to our offerings and solutions. If, as a result, users are not on the open web, advertising inventory outside of such platforms (including our publisher’s and our owned and operated 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, CTV, iCTV and video 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.

Because of these factors, we seek to expand and diversify our supply sources; nonetheless, 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 and we are unsuccessful in establishing or maintaining our relationships with supply sources on commercially reasonable terms, 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 these happens, our revenue could decline or our cost of acquiring inventory could increase, which, in turn, could lower our operating margins and materially adversely affect our advertising business. For additional information see also the Risk Factor titled - “*The consolidation among participants within the digital advertising market could have a material adverse impact on our business, financial condition and results of operations.*”

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 brands 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 brands, as well as on enhancing market awareness of them. Our brands, however, may be negatively impacted by a number of factors, including but not limited to, fraudulent, inappropriate or misleading content on our own sites and those we operate, as well as on publishers' sites on which we serve ads, service outages, product malfunctions, data protection and cybersecurity issues, and exploitation of our trademarks by others without our permission. If we are unable to maintain or enhance our brands in a cost-effective manner, our business and operating results could be materially adversely affected.

Non-compliance with industry self-regulation could negatively impact on our business, brand and reputation.

In addition to compliance with applicable laws and regulations, we voluntarily participate in industry self-regulatory bodies such as the Network Advertising Initiative, or the NAI, and the Digital Advertising Alliance, or DAA, which promulgate best practices or codes of conduct addressing, inter alia, privacy and the delivery of digital advertising. Undertone also voluntarily participates in several of such trade associations and industry self-regulatory groups, including the NAI, the DAA, the Internet Advertising Bureau and TAG Certified Against Fraud. If we or Undertone are unable to follow and abide by the rules and principles provided by such self-regulatory bodies and/or align the conduct of our business and practices with changes to such rules and principles, we may be subject to investigations by such self-regulatory bodies or other accountability groups, our customers and partners as well as users. Handling such actions may require us to devote financial and managerial resources, require us to change our business practices, and cause damage to our brand, which in turn could materially adversely affect our business, financial condition and results of operations. We also 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 delivery of digital advertising, our reputation may suffer and we could lose relationships with both buyers and sellers.

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, financial conditions and results of operations.

The advertising industry is highly competitive. If we cannot compete effectively and overcome the technological gaps 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 the introduction of new technologies, products and solutions, changing branding objectives, evolving customer demands rules, regulations 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 or more compelling than ours and that compete with us for finite advertising budgets and for limited inventory from publishers. 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, or acquire companies to help us overcome the technological gaps in a timely manner and meet the market demands, we could lose customers and market share or be compelled to reduce our prices and harm our operational results.

Our reputation is a key factor in our ability to compete successfully. There is no assurance that our ability to compete effectively in the future may not be affected by negative market perception. Because of these factors, we continuously seek to diversify our product suite to respond to the changing needs and interests of our customers to benefit from a variety of different offerings, however, we cannot guarantee that we will always be able to accommodate such needs, that such efforts would yield the expected revenue or that we will adapt quickly enough (and/or in a cost effective manner) to evolving changes in the industry in which we operate and related regulations, technologies, applications and devices, which could adversely impact our reputation, and, in turn, our business, financial condition and results of operations.

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

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

- Historically, in most cases our advertising business experienced the lowest revenue levels in the first quarter and the highest revenue levels in the fourth quarter, with the second and third quarters being slightly stronger than the first quarter (except for 2020 as a result of the initial effect of COVID-19);
- Product and service revenue are influenced by political advertising in the US, which generally occurs every two years;
- In any single period, product and service revenue 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; and
- 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.

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, view-ability, 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 (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), which could cause clients 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, financial condition and results of operations.

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, tablet 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). As such technologies or practices become widespread, this could have a material adverse effect on our business, 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, revenue and profit.

In most cases, when we deliver an advertisement, we are often able to collect certain data 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 may decide not to allow us to collect some or all of this data or may limit our use of this data. Additional details regarding limitations on the collection and use of this data due to existing and new laws and regulations are provided below under “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 and subject us to significant legal liability for non-compliance.”

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, rules and regulations 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 ever changing technological landscape, we may damage our brand and our ability to retain or attract 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 to 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. In addition, advertising customers may find that content made available through our properties is not suitable for their advertising requirements or that our competitors offer content which is more lucrative and relevant to their advertising needs, resulting in reduction of their advertising spend with us. If we are unable to meet these challenges, our business, financial condition and results of operations could be materially adversely affected.

Sales efforts with advertisers and ad agencies require significant time and expense and may ultimately be unsuccessful.

Contracting with new advertisers and ad agencies 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. In addition, there has been commoditization of services provided in digital advertising, resulting in margin pressure. 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 revenue. 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 revenue. 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 revenue could be impaired and our operating results could 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 revenue related to our actionable performance monitoring platform could decline.

We leverage the capabilities of our actionable performance monitoring SaaS platform to offer our customers the ability to deliver ads on social networks. 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 solutions in particular, may be constrained by the limited flexibility, increased requirements that are associated with advertising in these channels, and the social networks 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 revenue from our actionable performance monitoring platform. In addition to the foregoing, our actionable performance monitoring platform is dependent on our ability to create, optimize, and manage our customers' advertising campaigns as well as retrieve and push advertising campaign data to myriad of networks and tools in real time, such as Facebook, Instagram, Messenger, Google, TikTok, LinkedIn, Snapchat, Pinterest and Twitter. We are subject to each social network's respective terms and conditions governing our ability to access and utilize its platform. Our actionable performance monitoring 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 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 materially adversely affected.

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

We are highly dependent on our search services agreement with Microsoft Ireland Operations Limited. In November 2020, we entered into a renewed agreement with Microsoft Ireland Operations Limited effective as of January 1, 2021 until December 31, 2024 (the "Microsoft Agreement"). In 2021, the Microsoft Agreement accounted for 37% of our revenue. In this annual report on Form 20-F we refer to Microsoft Corporation and its affiliates as Microsoft.

If our Microsoft Agreement is terminated or substantially amended (not on favorable terms), we would experience a material decrease in our search advertising revenue or the profits it generates and would be forced to seek alternative search providers, at less competitive terms or accelerate the business we have with such search providers. There are few companies in the market that provide internet search and search advertising services similar to those provided by Microsoft such as Google and Verizon Media. 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 otherwise expediate current operations we have with such alternative search providers, or if we do, but the alternatives do not provide for terms that are as favorable as those currently provided and utilized, we would experience a material reduction in our revenue and, in turn, our business, financial condition and results of operations would be adversely affected.

Our search advertising 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 revenue. If we were to lose all or a significant portion of those publishers, our revenue and results of operations would be materially adversely affected.

In 2020 and 2021, the top five publishers distributing our search services accounted for approximately 22% and 19%, respectively, of our revenue. There can be no assurance that these existing publishers will 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 revenue and profitability.

The generation of search advertising revenue 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 revenue through the configuration of our search service as the default search provider during the download and installation of our publishers' products and/or use by their services of our search offering and the subsequent searches performed by the users thereof. To achieve these goals, we heavily rely on third-party publishers to distribute and/or implement our search offering as a value-added component of their own offerings. We are therefore constantly looking for more ways to distribute our search offering through various channels, including through independent distribution efforts of our owned and operated products and services. There are other companies that generate revenue from searches, some of them may have other monetization solutions. The large search engine companies, including Google, Microsoft, Verizon Media 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 offerings. 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 revenue will be negatively impacted.

In order to receive advertising-generated revenue 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, which could come about for a number of reasons, including general market conditions, competition, inventory availability or policy and operating decisions made by Microsoft or other search providers, could have an adverse effect on our business, financial condition and our results of operations.

Should the methods used for the distribution of our search solution, 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, our ability to generate revenue from our users' search activity could be significantly reduced.

Agreements with search providers, such as our agreement with Microsoft, require compliance 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 the establishment of guidelines to govern certain activities of third parties to whom the search services are syndicated, including the manner in which those parties can acquire new users and drive search traffic. 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 search solutions, 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, whether by us or by third parties to which we syndicate paid listings or by the publishers through whom we secure distribution arrangements 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 search solution 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. Should any of our large partnerships be deemed non-compliant, blocked or partner with another provider, it could be difficult to replace the revenue generated by that partnership and we would experience a material reduction in our revenue and, in turn, our business, financial condition and results of operations would be adversely affected.

Should the providers of 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 revenue 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 Edge and Mozilla's Firefox, accounting for over 83% of the desktop browser market in 2021, and Google's Chrome alone accounting for over 67%, 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 74% of the market in 2021, and Apple operating systems accounting for 16% of that market, based on StatCounter reports. 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 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 part of our search revenue generation and services are currently not widely spread on mobile platforms. Also, web-based software and similar solutions are impacting the attractiveness of downloadable software products.

Historically, the market related to desktop computers has accounted for substantial part of our search revenue. In recent years, there has been a trend towards shifting internet usage from desktop computers to mobile devices such as mobile phones, tablets, etc. While in 2016 desktop worldwide market share was 54.09% it declined to 45.91% in 2017 and stabilizing at 43.47% in 2021, based on StatCounter reports; on the other hand, mobile worldwide market share in 2016 was 45.91% rising to 54.09% in 2017 and stabilizing at 56.53% in 2021, based on StatCounter reports. If this trend towards using 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 revenue 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 revenue will be negatively impacted.

The global COVID-19 health pandemic has had and still has an ongoing adverse effect and could potentially severely affect, our business, results of operations and financial condition due to impacts on our industry, as well as impacts from remote work arrangements, actions taken to contain the virus or treat its impact, and the speed and extent of the recovery.

Health pandemics, such as COVID-19, have been, and could in the future adversely affect our business and operations. The COVID-19 pandemic and efforts to control its spread have imposed restrictions on the movement of people, goods and services worldwide, including in the regions in which we and our clients and partners operate, and have significantly impacted economic activity and financial markets. Many advertisers have decreased or paused their advertising spending as a response to the economic uncertainty, decline in business activity and other COVID-19-related impacts, which have negatively impacted, and may continue to negatively impact, our revenue and results of operations, the extent and duration of which we may not be able to accurately predict.

As a result of the COVID-19 pandemic, we have transitioned many of our employees into a hybrid model, where employees are working remotely for part of the week. The transition has had little impact on our employee productivity and has not caused any interruption to our business. Due to the uncertainty of COVID-19, we will continue to assess the situation, including abiding by any government-imposed restrictions, market by market.

It is possible that the hybrid working model could have a negative impact on the execution of our business plans and operations. If a natural disaster, power outage, connectivity issue, or other event occurred that impacted our employees' ability to work remotely, it may be difficult or, in certain cases, impossible, for us to continue our business for a substantial period of time. The increase in remote working may also result in concerns related to privacy and fraud, heighten the risk of cyber incidents. Recently, organizations worldwide, including governments and commercial enterprises, have seen an increase in cyber-attacks, such as phishing and ransomware attacks, by bad actors taking advantage of the pandemic and remote workforces. Our own systems and those of third parties with which we work are also subject to such increased threats.

There are additional variables that impair our ability to accurately predict the impact that COVID-19 will have on our future operations. Despite the recent development and introduction of different vaccines to COVID-19, there is still much uncertainty as to the length of time that the pandemic and related disruptions will continue, the impact of governmental regulations or easing of regulations in response to the strengthening or weakening of the pandemic, and the degree of overall changes in consumer behavior. Numerous state and local jurisdictions have imposed, and others in the future may impose, "shelter-in-place" orders, quarantines, executive orders and similar government orders and restrictions for their residents to control the spread of COVID-19. For example, Israel, federal and state governments in the United States, France and Ukraine, the locations in which our primary offices are located, have imposed limitations on gatherings, social distancing measures and restrictions on movement, only allowing essential businesses to remain open. Such orders or restrictions have resulted in temporary store closures, work stoppages, slowdowns and delays, travel restrictions and cancellation of events, among other effects, any of which may negatively impact workforces, customers, consumer sentiment and the economies in many of our markets, and as a result, may further adversely affect our operations.

The COVID-19 pandemic may furthermore even lead to a global economic downturn that is more than temporary and could adversely affect the need for our services generally. A downturn could also have a material adverse impact on our business partners' stability and financial strength. Given the uncertainties associated with COVID-19, it is difficult to fully predict the magnitude of potential effects on our and our business partners' business, financial condition and results of operations as well as the effect on the other risk factors described herein. While we have a strong cash position and generate positive cash flow from our operations, we cannot guarantee that our financial condition will not be adversely affected in a material manner.

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 and other consultants and contractors. We operate out of different locations around the globe and 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 and qualified employees as well, which can be difficult, expensive and time-consuming. If we cannot attract and retain additional experienced 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 and we may face challenges in adequately or appropriately integrating them into our workforce and organizational culture. See Item 6. “Directors, Senior Management and Employees.”

Competition for highly skilled technical and other personnel in Israel is intense, and as a result we may fail to attract, recruit, retain and develop qualified employees, which could materially and adversely impact our business, financial condition and results of operations.

We compete in a market marked by rapidly changing technologies and an evolving competitive landscape. In order for us to successfully compete and grow, we must attract, recruit, retain and develop personnel with requisite qualifications to provide expertise across the entire spectrum of our intellectual capital and business needs.

Our principal research and development, certain sales and marketing as well as significant elements of our general and administrative activities are conducted at our headquarters in Israel, and we face significant competition for suitably skilled employees in Israel. While there has been intense competition for qualified human resources in the Israeli high-tech industry historically, the industry experienced record growth and activity in 2021, both at the earlier stages of venture capital, growth equity financings, exit stage of initial public offerings and mergers and acquisitions. This flurry of growth and activity has caused a sharp increase in job openings in both Israeli high-tech companies and Israeli research and development centers of foreign companies, and intensification of competition between these employers to attract qualified employees in Israel. As a result, the high-tech industry in Israel has experienced significant levels of employee attrition and is currently facing a severe shortage of skilled human capital, including engineering, research and development, sales and customer support personnel. Many of the companies with which we compete for qualified personnel have greater resources than we do, and we may not succeed in recruiting additional experienced or professional personnel, retaining personnel or effectively replacing current personnel who may depart with qualified or effective successors.

In addition, as a result of the intense competition for qualified human resources, the Israeli high-tech market has also experienced and may continue to experience significant wage inflation. Accordingly, our efforts to attract, retain and develop personnel may also result in significant additional expenses, which could adversely affect our profitability. Furthermore, in making employment decisions, particularly in the high-technology industry, job candidates often consider the value of the equity they are to receive in connection with their employment. Employees may be more likely to leave us if the shares they own or the shares underlying their equity incentive awards have significantly appreciated or significantly decreased in value. Many of our employees may receive significant proceeds from sales of our equity in the public markets, which may reduce their motivation to continue to work for us and could heighten the risk of employee attrition.

While we offer competitive equity and compensation terms as well as utilize non-competition agreements with our employees as a means of improving our employee retention, those terms and agreements may not be effective towards that goal. These non-competition agreements prohibit our employees, if they cease working for us, from competing directly with us or working for our competitors for a limited period. We may be unable to enforce these agreements under Israeli law, and it may be difficult for us to restrict our competitors from benefiting from the expertise our former employees developed while working for us.

In light of the foregoing, there can be no assurance that qualified employees will remain in our employ or that we will be able to attract and retain qualified personnel in the future. Failure to retain or attract qualified personnel could have a material adverse effect on our business, financial condition and results of operations.

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

We acquired Make Me Reach (currently, Paragone) in February 2015 and Undertone in November 2015, Captain Growth in March 2019, Content IQ in January 2020, Pub Ocean Limited, or Pub Ocean in July 2020 and Vidazoo Ltd., or Vidazoo in October 2021 and we may continue to acquire complementary products, technologies or businesses. These acquisitions divert a substantial part of our resources and management attention and could in the future, adversely affect our financial results. 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 revenue 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 be required to pay additional funds for earn-outs based on achievement of milestones, or 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 customer relationships, content, domain names and acquired technology, among other things, as of the acquisition date, and are amortized based on their economic or useful 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.

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.

Shareholders may be able to control us.

As of March 5, 2022, we have one shareholder that beneficially holds more than 5% of our outstanding shares. See Item 7.A. "Major Shareholders and Related Party Transactions—Major Shareholders" for more information. To our knowledge, this shareholder is not party to a voting agreement with respect to our shares. However, should this shareholder 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 such shareholder.

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 2021 and March 2022, our share price has fluctuated from a low of \$12.24 to a high of \$30.00, and the daily average trading volume in that period was 856,284 (and for the period of January 1, 2021 and until December 31, 2021, was 905,095). The following factors may cause significant fluctuations in the market price of our ordinary shares:

- negative fluctuations in our quarterly revenue 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 5, 2022, there were outstanding an aggregate of 3,977,554 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, since the U.S. dollar declined in value in relation to the NIS, it has 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 \$0.4 million. The exchange rate of the U.S. dollar to the NIS has been volatile in the past, decreasing by approximately 8%, 7% and 3% in 2019, 2020 and 2021, respectively. As of December 31, 2021, we had a foreign currency net liability of approximately \$6.6 million (which number includes approximately \$6.4 million in NIS denominated to the Right of Use liability relates to our offices in Israel), and our total foreign exchange loss was approximately \$0.6 million for the year ended December 31, 2021. 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. 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.A “Operating and Financial Review and Prospects—Operating Results—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.

There can be no assurance that we will not be a passive foreign investment company (a “PFIC”) for U.S. federal income tax purposes for any taxable year.

In general, a non-U.S. corporation is a PFIC for any taxable year in which (i) 75% or more of its gross income consists of passive income or (ii) 50% or more of the value of its assets (generally determined on an average quarterly basis) consists of assets that produce, or are held for the production of, passive income. For purposes of the above calculations, a non-U.S. corporation that owns (or is treated as owning for U.S. federal income tax purposes), directly or indirectly, at least 25% by value of the shares or equity interests of another corporation or partnership is treated as if it held its proportionate share of the assets of the other corporation and received directly its proportionate share of the income of the other corporation. Passive income generally includes dividends, interest, rents, royalties and certain gains. Cash is generally a passive asset for these purposes. Goodwill is generally characterized as a non-passive or passive asset based on the nature of the income produced in the activity to which the goodwill relates.

We believe that we were not a PFIC for our 2021 taxable year. However, there can be no assurance that we will not be a PFIC for the current or any future taxable year because our PFIC status is an annual determination that can be made only after the end of the relevant taxable year and will depend on the composition of our income and assets and the value of our assets from time to time (including the value of our goodwill, which may be determined, in large part, by reference to the market price of our ordinary shares, which has been, and may continue to be, volatile). Because the value of our goodwill may be determined by reference to our market capitalization from time to time, and because we hold and may continue to hold significant amounts of cash and cash equivalents, our risk of being or becoming a PFIC for any taxable year will increase if our market capitalization declines.

If we are a PFIC for any taxable year during which a U.S. investor owns our ordinary shares, the U.S. investor could be subject to adverse U.S. federal income tax consequences. See “Taxation – U.S. Federal Income Tax Considerations – Passive Foreign Investment Company Rules.”

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, including 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 on Form 20-F 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 Exhibit 2.1 to this annual report on Form 20-F, which is incorporated by reference into this annual report on Form 20-F, 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.

We must meet the Global Select Market's continued listing requirements and comply with the other Nasdaq rules, or we may risk delisting. Delisting could negatively affect the price of our ordinary shares, which could make it more difficult for us to sell securities in a financing and for you to sell your ordinary shares.

We are required to meet the continued listing requirements of the Nasdaq Global Select and comply with the other Nasdaq rules, including those regarding minimum shareholders' equity, minimum share price and certain other corporate governance requirements. Delisting of our ordinary shares from the Nasdaq Global Select would cause us to pursue eligibility for trading on other markets or exchanges, or on the pink sheets. In such case, our shareholders' ability to trade, or obtain quotations of the market value of, our ordinary shares would be severely limited because of lower trading volumes and transaction delays. These factors could contribute to lower prices and larger spreads in the bid and ask prices for our securities. There can be no assurance that our ordinary shares, if delisted from the Nasdaq Global Select in the future, would be listed on a national securities exchange or quoted on a national quotation service, the OTCQB or OTC Pink. Delisting from the Nasdaq Global Select Market, or even the issuance of a notice of potential delisting, would also result in negative publicity, make it more difficult for us to raise additional capital, adversely affect the market liquidity of our ordinary shares, reduce security analysts' coverage of us and diminish investor, supplier and employee confidence. In addition, as a consequence of any such delisting, our share price could be negatively affected and our shareholders would likely find it more difficult to sell, or to obtain accurate quotations as to the prices of, our ordinary shares.

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.

Our business and financial performance may be materially adversely affected by information technology issues, data breaches, cyber-attacks and other similar incidents, insufficient cyber security and other business disruptions.

Our business is constantly challenged and may be impacted by information technology issues, data breaches, cyber-attacks and other similar incidents, and other business disruptions experienced by us or our service providers. Data breaches, cyber-attacks and other similar incidents, in particular, are a growing and evolving risk, and often are difficult or impossible to detect for long periods of time or to successfully defend against. Such attacks may include, but are not limited to, malicious software, computer viruses, ransomware attacks, denial-of-service attacks, social engineering, phishing attacks, worms, insider threats, human error or malfeasance, 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, including personal data, corruption of data and overloading our servers and systems with communications and data. Data breaches, cyber-attacks and other similar incidents are increasing in frequency, levels of persistence, sophistication and intensity, are evolving in nature, and are conducted by organized groups and individuals with a wide range of motives and expertise, including organized criminal groups, “hacktivists,” terrorists, nation states, nation state-supported actors, and others. Unidentified groups have hacked numerous internet websites and servers, including our own, for various reasons, political, commercial and other. Any such incident, or any failure to make adequate or timely disclosures to the public, regulators, or law enforcement agencies following any such incident, could subject us or our service providers 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, including personal data, the destruction or corruption of data, other manipulation or improper use of our systems and networks, violations of applicable privacy, data collection and protection and cybersecurity laws and regulations or notification obligations, legal claims, regulatory scrutiny or enforcement actions, 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 have caused certain difficulties, they have not had, to date, a material adverse effect on our business, financial condition or results of operations. However, given the unpredictability of the timing, nature and scope of such incidents, and because techniques used to obtain unauthorized access or sabotage systems change frequently and generally are not identified until they are launched against a target, 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. We may not be able to anticipate data breaches, cyber-attacks or other similar incidents, detect or react to such incidents in a timely manner, implement effective preventive measures against such incidents, or adequately remediate any such incident. As cybersecurity threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate or remediate any information security vulnerabilities, data breaches, cyber-attacks or other similar incidents.

While we generally perform cybersecurity diligence on our key service providers, because we do not control our service providers and our ability to monitor their cybersecurity is limited, we cannot ensure the cybersecurity measures they take will be sufficient to protect any information we share with them. Due to applicable laws and regulations or contractual obligations, we may be held responsible for data breaches, cyber-attacks or other similar incidents attributed to our service providers as they relate to the information we share with them. In addition, if we suffer a highly publicized data breach, cyber-attack or other similar incident, even if our platforms and solutions perform effectively, such an incident could have an adverse effect and cause us to suffer reputational harm, lose existing commercial relationships and customers or deter existing customers from purchasing additional solutions and prevent new customers from purchasing our solutions.

We cannot ensure that any limitations of liability provisions in our agreements with customers, service providers and other third parties with which we do business would be enforceable or adequate or would otherwise protect us from any liabilities or damages with respect to any particular claim in connection with a data breach, cyber-attack or other similar incident. Additionally, we cannot be certain that our insurance coverage will be adequate for cybersecurity liabilities actually incurred, that insurance will continue to be available to us on economically reasonable terms, or at all, or that our insurer will not deny coverage as to any future claim.

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.

We implement and use proprietary and third party technologies to identify fraudulent or suspicious impressions, clicks or conversions. Despite our efforts, it can be difficult to detect fraudulent suspicious activity for different reasons. 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 solutions as well as 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 advertising 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 revenue 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 and distribution. 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 revenue 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 platforms, websites and services. Temporary failure of these services, including catastrophic or technological interruptions, would materially reduce our revenue 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, hosting and telecommunication providers may experience disruptions, which would reduce our revenue and increase our costs. We own servers located in Israel, Europe and the United States and we also rent the services of approximately 1,000 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 revenue, in addition, the services of such providers could be vulnerable to damage or interruption from earthquakes, hurricanes, floods, fires, cybersecurity 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 the services of our providers or their inability to meet the service capacity we require, could result in interruptions in the availability or functionality of our solutions or materially impede our ability to attract and onboard new customers to services and to maintain relationships with current customers. 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 revenue that we anticipate from our users and result in a decline in our user base. Should we not be able to timely respond to such changes or in the event that the search solutions offered by vendors would offer better user experience than the one offered by us, this could have an adverse effect on our business, financial condition and our results of operations. 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 and subject us to significant legal liability for non-compliance.

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 privacy, data collection and protection, location of data storage and processing, cybersecurity, e-commerce, content, use of “cookies,” access changes, “net neutrality,” pricing, advertising, distribution of “spam,” copyright and other intellectual property, libel, marketing, 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.

For example, we collect, use, maintain and otherwise process certain data about our customers (including, without limitation, customers’ clients or users), partners, employees, consultants, leads and consumers. Our ability to collect, use, maintain or otherwise process personal data has been, and could be further, restricted by existing and new laws and regulations relating to privacy and data collection and protection, including the EU General Data Protection Regulation (the “GDPR”). These laws and regulations define personal data to include location data and online identifiers, which are commonly used and collected parameters in digital advertising and, among other things, impose stringent user consent requirements and permit data subjects to request we discontinue using certain data. In addition, some countries are considering or have enacted legislation requiring local storage and processing of data that could increase the cost and complexity of delivering our services.

Additionally, the uncertainty created by these laws and regulations 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 (“EU”). The GDPR has an even wider territorial scope and contains significant penalties for non-compliance. The GDPR, among other things, imposes requirements to provide detailed and transparent disclosures about how personal data is collected and processed, grants rights for data subjects to access, delete or object to the processing of their personal data, provides for a mandatory breach notification to supervisory authorities (and in certain cases, affected individuals) of certain data breaches, sets limitations on the retention of personal data and outlines significant documentary requirements to demonstrate compliance through policies, procedures, training and audits. To further complicate matters in Europe, to date, supervisory authorities in the member states have some flexibility when implementing European Directives and certain aspects of the GDPR, which can lead to diverging national rules. European supervisory authorities have been very active in terms of enforcing data protection rules, including with respect to cookie-related matters.

The withdrawal of the United Kingdom (“U.K.”) from the EU (“Brexit”) also has created uncertainty with regard to the regulation of data protection in the United Kingdom. Since January 1 2021, when the transitional period following Brexit expired, we have been required to comply with the GDPR as well as the U.K.’s General Data Protection Regulation (“U.K. GDPR”) (combining the GDPR and the UK’s Data Protection Act of 2018), which exposes us to two parallel regimes, each of which authorizes similar fines and may subject us to increased compliance risk based on differing, and potentially inconsistent or conflicting, interpretation and enforcement by regulators and authorities (particularly, if the laws are amended in the future in divergent ways). With respect to transfers of personal data from the European Economic Area (“EEA”), on June 28, 2021, the European Commission issued an adequacy decision in respect of the U.K.’s data protection framework, enabling data transfers from EU member states to the U.K. to continue without requiring organizations to put in place contractual or other measures in order to lawfully transfer personal data between the territories. While it is intended to last for at least four years, the European Commission may unilaterally revoke the adequacy decision at any point, and if this occurs, it could lead to additional costs and increase our overall risk exposure. Additionally, the European Commission is currently re-examining its Decision 2011/61/EU regarding the adequacy of Israeli law, in light of the GDPR and developments in Israeli privacy legislation, which could result in revoking Israel’s adequacy status for purposes of transfers of personal data from the EEA to Israel. The outcome of this examination may also affect the U.K.’s approach on the adequacy of Israeli law with respect to the U.K. GDPR, which could require us to further review and amend the lawful mechanisms by which we make and/or receive personal data transfers from the U.K. It is unclear how U.K. data protection laws or regulations will develop in the medium to longer term.

Additionally, recent legal developments in Europe have created complexity and uncertainty regarding transfers of personal data from the EEA to the United States. Most recently, on July 16, 2020, in a case known as Schrems II, the Court of Justice of the European Union (“CJEU”) invalidated the EU-US Privacy Shield Framework (“Privacy Shield”), under which personal data could be transferred from the EEA to U.S. entities which had self-certified under the Privacy Shield scheme. While the CJEU upheld the adequacy of the standard contractual clauses (a standard form of contract approved by the European Commission as an adequate personal data transfer mechanism, and potential alternative to the Privacy Shield) (“SCCs”), it made clear that reliance on SCCs alone may not necessarily be sufficient in all circumstances. The CJEU’s decision also cast doubt over the effectiveness of the SCCs. The European Data Protection Board, which subsequently issued a revised set of SCCs for organizations to utilize, released their comments on the supplementary measures that can be used to ensure a sufficient level of data protection when transferring personal data. The comments indicated that organizations need to perform a data transfer impact assessment to evaluate the legal regime applicable in the destination country, in particular applicable surveillance laws and rights of individuals, and that additional measures and/or contractual provisions may need to be put in place. However, the nature of these additional measures is currently uncertain. Comparable risks and considerations apply with respect to transfers of personal data from the U.K. to the United States.

Similarly, there have been laws and regulations adopted throughout the United States and in Israel that impose new obligations in areas such as privacy, in particular protection of personal information and implementing adequate cybersecurity measures to protect such information. In the United States, both federal and state legislation also govern the collection, use and other processing of personal data, and the advertising industry has been subject to review by the Federal Trade Commission (the “FTC”), U.S. Congress, and individual states. For example, the California Consumer Privacy Act (“CCPA”), provides data privacy rights for California residents and operational requirements for covered companies. Among other things, companies covered by the CCPA must provide new disclosures to California residents and afford such residents the ability to opt-out of certain sales of personal information. The CCPA provides for civil penalties for violations, as well as a private right of action for data breaches that is expected to increase data breach litigation. In addition to the CCPA, the California Privacy Rights Act (“CPRA”), which passed in November 2020 and will take effect in January 2023, will expand the rights granted under the CCPA and impose additional notice and opt out-obligations, including an obligation to provide California residents with the ability to opt-out to the processing of personal information for purposes of behavioral advertising. Additional U.S. states have implemented, or are in the process of implementing, similar new laws or regulation (for example, the Virginia Consumer Data Protection Act (“VCDPA”) that will go into effect on January 1, 2023 and the Colorado Privacy Act (“CPA”) which will go into effect on July 1, 2023) that impose new privacy rights and obligations. Further, laws in all 50 states require businesses to provide notice to consumers whose personal information has been disclosed as a result of a data breach. More generally, some observers have noted that the CCPA, CPRA, VCDPA, and CPA could mark the beginning of a trend toward more stringent United States federal privacy legislation, which could increase our potential liability and adversely affect our business.

The CCPA, and eventually the CPRA, VCDPA, CPA, and other legal and regulatory changes, are making it easier for certain individuals to opt-out of having their personal data processed and disclosed to third parties through various opt-out mechanisms, which could result in an increase to our operational costs to ensure compliance with such legal and regulatory changes. In recent years, there has also been an increase in attention to and regulation of privacy and data collection and protection across the globe, including in the United States with the increasingly active approach of the FTC to enforcing data privacy under the Section 5 of the FTC Act pursuant to the “Unfair and Deceptive Acts and Practices” framework. Similar to the GDPR, the CCPA, and eventually the CPRA, VCDPA, CPA, and other legal and regulatory changes, will require us to devote resources and incur additional costs associated with compliance, as well as impose additional restrictions on our and our partners’ operations.

In addition, failure to comply with the Israeli Privacy Protection Law 1981 and its regulations, as well as the guidelines of the Israeli Privacy Protection Authority, may expose us to administrative fines, civil claims (including class actions) and, in certain cases, criminal liability. Current pending legislation may result in a change to the current enforcement measures and sanctions. There have also been privacy bills enacted in other countries around the world, such as Brazil, which have introduced new or expanded privacy requirements and we expect that privacy legislation will continue to evolve in the coming years. Therefore, it is difficult to determine whether and how such existing and laws and regulations will apply to and impact the internet and our business.

Further, any failure or perceived failure to comply with our public privacy policies and other public statements about privacy and cybersecurity could potentially subject us to regulatory investigations, enforcement or legal actions, and harm to our reputation and, if such policies or statements are found to be deceptive, unfair or misrepresentative of our actual practices, fines, monetary or other penalties, and other damage to our business and results of operations.

Although we strive to comply with applicable laws and regulations the evolving global standards regarding privacy and to 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, preservation and other processing practices or that it may be argued that our practices do not comply with certain countries’ privacy and data collection and protection laws and regulations. Due to rapid changes in technology and the inconsistent interpretations of privacy and data collection and protection laws and regulations, we may be required to materially change the way we do business. The challenges imposed by the ongoing need to remain compliant with such laws and regulations, as well the need to implement any changes required based on newly introduced laws and regulations, may slow our growth, and if we are not able to cope with these challenges as effectively as other companies, we will be competitively disadvantaged. Any limitation on our ability to collect and utilize data, including personal data, would make it more difficult for us to be able to optimize ad placement for the benefit of our advertisers and publishers, which could render our solutions less valuable and potentially result in loss of clients and a decline in revenue. For example, we may need to adapt our advertising solution to a “cookie-less” environment and introduce alternative solutions which may not provide the targeting capabilities provided by cookies. In addition, 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. Further, 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 privacy, data collection and processing and cybersecurity laws and regulations, document retention requirements, and other standards of accountability. Compliance with such existing and new laws and regulations can be costly and can delay, or impede the development of new products, any and failure or perceived failure to comply with such laws and regulations could result in negative publicity, increase our operating costs, require significant management time and attention and subject us to inquiries or investigations, litigation (including class actions), claims, or other remedies, including penalties, fines, sanctions and criminal and civil liabilities, or demands or orders that we modify or cease existing business practices, each of which could materially affect our operating results and our business. Moreover, concerns about our collection, use, sharing, handling and other processing of data or other privacy related matters, even if unfounded, could harm our reputation and operating results. For more information regarding government regulations to which we are subject, see Item 4.B. “Business Overview— Government Regulation.”

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.

While in some states we are subject to sales tax, 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 could result in a material adverse effect on our revenue.

For example, in February 2021, the State of Maryland's House of Delegates and Senate approved legislation to tax digital advertising revenue. Similar bills have been introduced in several other states.

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

Under current Israeli, U.S., U.K., Ukrainian and French 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. Ukrainian and French 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 revenue 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 revenue 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 revenue have been concentrated within the North American market, accounting for approximately 89% of our revenue for 2021. A significant reduction in the revenue 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 revenue, 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's Inclusive Framework ("BEPS")).

The OECD's Inclusive Framework on BEPS has recently made certain recommendations, informally known as BEPS 2.0, which aim to modify international taxation norms with respect to allocation of taxing rights and introduction of minimum taxation, focusing mostly on the digital economy. Currently, there is uncertainty as to what modifications will be made in these recommendations and how they will be implemented.

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. Shareholders 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 revenue 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, privacy and data collection and protection laws and regulations, 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. 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 as 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 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 the countries in the region, 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. Furthermore, in early January 2020, certain events contributed to an increase in hostilities between the United States and Iran, and as a result Iran issued multiple public statements threatening to attack Israel and the United States. 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.

We are exposed to the risk of natural disasters, political events, war, terrorism and pandemics, each of which could disrupt our business and adversely affect our results of operations.

Events beyond our control could have an adverse effect on our business, financial condition, results of operations and cash flows. Disruption to our business resulting from natural disasters, political events, war, terrorism, pandemics or other reasons could impair our ability to continue to provide uninterrupted service to our advertisers and partners. For example, tensions between Russia and Ukraine, recently resulting in Russia's invasion of Ukraine, and the possibility of retaliatory measures taken by the U.S. and NATO have created global security concerns that could have a lasting adverse impact on regional and global economies, and in turn, may lead to reduced spending on advertising and adversely affect our results of operations. Similarly, disruptions in the operations of our key third-parties, such as data centers, servers or other technology providers, could have a material adverse effect on our business.

While we have disaster recovery arrangements in place, they have not been tested under actual disasters or similar events and may not effectively permit us to continue to provide our services. If any of these events were to occur to our business, our business, results of operations, or financial condition could be adversely affected.

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 on Form 20-F, 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 including interest and linkage to the Israeli consumer price index. 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.A “Operating Results” under the caption “Taxes on Income,” in Item 10.E. “Taxation” under the caption “Israeli Taxation” and in Note 15 to our Financial Statements.

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.

In the recent years, we completed several acquisitions, including the acquisition of ClientConnect Ltd. in 2014, the acquisition of Interactive Holding Corp. in 2015, which we refer to, together with its subsidiaries, as “Undertone”, the acquisition of Septa Communications LLC, also known as “Captain Growth”, in March 2019, the acquisition of Content IQ LLC in January 2020, the acquisition of Pub Ocean in July 2020 and the acquisition of Vidazoo in October 2021.

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 on Form 20-F and is not incorporated by reference herein.

Principal Capital Expenditures

In 2019, 2020 and 2021, capital expenditures consisted of \$1.2 million, \$0.5 million and \$0.6 million, respectively, mainly from investments in computer hardware and software.

To date, we have financed our general capital expenditures with cash generated from operations and debt. 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.

B. BUSINESS OVERVIEW

General

Perion is a global technology innovator in the digital advertising ecosystem, providing brands, agencies and publishers with a holistic ability to identify and reach their most valuable customers – across all channels – with high-impact creative units that are orchestrated by its proprietary Intelligent Hub (iHUB), which, we believe, offers untapped cross-sell opportunities that we are just starting to realize.

Perion's technology leadership leverages the Company's scale, operating across the three main pillars of digital advertising: ad search, social media, and display/video/CTV, operate in an addressable market of more than \$571 billion in 2022 that is expected to grow to \$785 billion in 2025, according to eMarketer.

The advanced technological solutions offered by Perion, which apply to the entire consumer journey and marketing funnel, are poised to benefit from the macro trends in the digital advertising ecosystem, which include:

- The growth in search driven by the growing shift to ecommerce;
- The growth in video which is outpacing other forms of digital marketing;
- The transition from linear TV to Digital TV;
- The inevitable disappearance of the cookie in an increasing privacy-centric world and the corresponding imperative of first-party data;
- The need for high-engagement creative in what is called the "Attention Economy."; and
- The importance brands provide to advertising creativity vs. standard formats.

In addition, brands are seeking new solutions that enable them to transcend the dominance of the triopoly—Google, Facebook and Amazon, which now control 86% of digital ad spend in the United States, according to eMarketer—to enable more flexible options that respect their brands, users, and need for monetization.

Another aspect of Perion's technological solutions, which reflects Perion's innovative future-forward approach, is Perion's SORT™ technology. SORT Perion's alternative to 3rd party cookies is first and foremost a result of our ability to analyze all data signal from our assets to a single central place – intelligent HUB.

SORT - which stands for "Strategic Optimization of Relevant Traits" – is a provisional patent technology that not only eliminates the need for cookies, but is being demonstrated by actual, real-time comparison tests to outperform first-party cookies. This technology is a replacement for third-party cookies, which are currently an essential part of the targeting infrastructure of the digital advertising market, but are under increasing pressure for the manner in which they violate user privacy. SORT is a competitive advantage that positions Perion to capture revenue as brands and advertisers move away from cookies, on the one hand, and other platforms such as Google – who announced the cessation of Cookies late last year, on the other hand.

On top of that, Perion also develops a centralized and intelligent hub, referred to as the iHUB, which connects the supply and demand side assets of Perion and processes billions of signals. This provides five levels of value: operational savings – shared resources; Traffic Acquisition Costs and media buying optimization; increased customer value; market agility and creative firepower, as further described below.

1. Operational Savings – Shared Resources

The iHUB serves as a central function to all of Perion's activities, acting as a shared infrastructure resource consisting of an ad-server, as well as a central real-time bidding engine, a smart data layer, and sophisticated reporting. This efficiency eliminates excessive expenses incurred by business units when developing separate infrastructures.

2. Traffic Acquisition Costs (TAC) Optimization

The iHUB allows our business units to quickly balance and harmonize demand and supply, providing optimum utilization of our owned & operated supply as well as the open web. This enables us to serve direct demand in a closed loop, generating superior efficiency and hence performance.

Further, we offer publishers and advertisers multiple ad products within our offering model. This enables us to capture more share, optimizing the return on our go-to-market efforts.

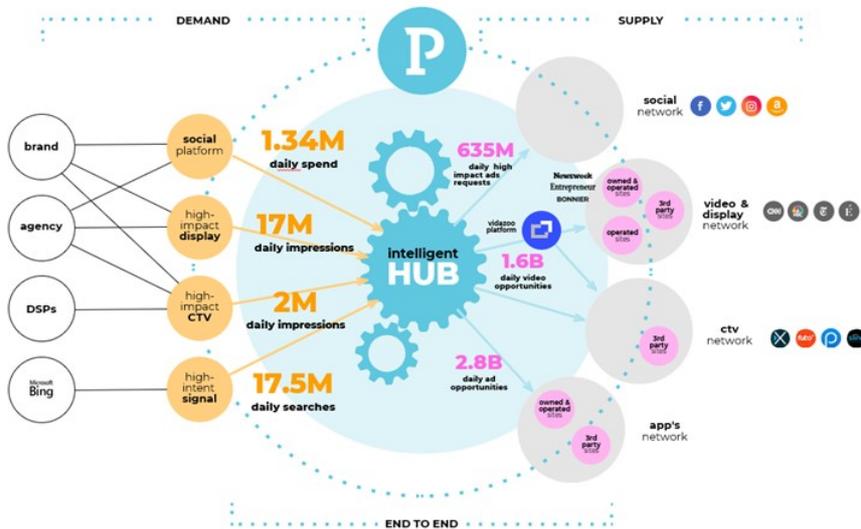
3. Increased Customer Value

Our advertisers benefit from both high scale and reach, as well as better matching on a segment basis. This is made possible by our cross-company data layer. This same technology offers customer value to our publishers, delivering more opportunities to monetize their inventory and generate incremental revenue - as we make multiple ad products from different business units available through our unified platform.

The investments we have made in the scale and reach of our iHUB have enabled us to develop our pioneering SORT technology. In fact, third-party research has shown that SORT can outperform cookies. As the industry moves to a post-cookie, privacy-first world, this technology is expected to provide strong competitive differentiation to the Company.

4. Market Agility and Creative Firepower

The COVID-19 pandemic has highlighted the importance of being able to respond to strategic shifts in advertising dollars allocated between video/CTV, display and search media. Through our diversified solutions portfolio, and our well-known high-impact ad formats, which provide advertising performance and brand engagement across multiple platforms and channels, we believe that Perion is well positioned to capitalize on the inevitable changes in digital advertising spending and quickly respond to the ever changing needs of the digital advertising market.



Strength Through Diversification

Perion is positioned to benefit from the overall growth of the digital marketplace, through our diversified business solutions that cover the three main pillars of digital advertising—our search ad monetization; cross-channel high impact advertising, including through video and connected television, or CTV; social advertising through our actionable performance monitoring platform; and our content monetization system.

3D diversified business model

Hub & Spokes

Our ability to connect all assets into central intelligent hub

- SORT - \$50M of additional Adv. Budget
- iHUB - \$6M of operational media / TAC saving



Cross-Channel

We comfortably operate across the three main pillars of digital advertising

- Search Adv
- Social Adv
- Display/video/CTV Adv

Demand & Supply

Our ability to generate revenue from both sides of the open Web

Intelligent High Impact Solutions that Win the War for Attention

Brands and advertisers are in a war for attention, and it is getting more intense. Without delivering impactful creative through the proper channels, brands cannot express a cohesive, creative campaign throughout the purchase funnel, nor can they achieve successful ROI (Return on Investment). Perion's High Impact Advertising (HIA), which includes rich media and engaging iCTV, is the breakthrough answer to effective creative expression. It breaks through the clutter and ad blindness that conventional ad units cannot overcome, enabling the upper- and mid-funnel brand objectives that all brands and agencies require, turning awareness into performance.

We operationalize our proprietary, creatively-led solutions based on years of user engagement and interactions with different kinds of advertising units. These units are informed by the requirements of our advertisers and our cultural insights. Because our mission is to assure that our HIA creative can be distributed to the right audiences, we have built and grown our curated network of publishers where our HIA are served.

Our superior performance is enabled by our proprietary cookieless targeting solution, Smart Optimization of Responsive Traits (SORT) that allows brands to reach optimal performance by predicting how consumer groups will respond to our HIA, without the limitations in scale of legacy 3rd party cookie-based targeting. Our technology utilizes real-time, cookieless data signals to identify users with shared traits & classify them into addressable SmartGroups.

Perion's technology is designed to continually balance the right mix of channels – from display to video/CTV – to improve ROAS (Return on Ad Spend). This complete technological moat delivers robustly optimized campaigns that combine creativity, reach, and our proprietary targeting capabilities. This moat also includes Perion's white-glove service and the turnkey provision of comprehensive, full-funnel solutions to all brands and agencies.

Video Monetization & Revenue Management

Online Video is by far the most growing category in ad spends over the last 5 years. Budgets continue shifting from traditional TV to online video and online TV. Audiences shrink and marketers pour their advertising dollars into digital video.

As budgets continue rising, digital publishers recognize the incremental revenue opportunity entailed in video advertising, but they require the best video technology that can manage their video content delivery, ad serving and optimization. Vidazoo, our video optimization platform, is helping publishers with the best in class video technology and monetization. Through Vidazoo's proprietary platform, we offer a wide range of video products, through which publishers can deliver a better user experience, increase video content consumption, and explore new monetization opportunities. Vidazoo's most common tech products that are used by their publishers are: Video player and CMS, AdServer & Yield Management Engine.

In addition, Vidazoo also provides monetization services (Ad Marketplace) that connect more than 25 programmatic advertisers with exclusive high quality and brand safe opportunities for video inventory across 180 publishers worldwide.

Content optimization Solution – Creating Opportunities for Publishers Under Pressure

The nature of today's digital ecosystem makes audience growth challenging for publishers. This leaves them with fewer levers for growing their audiences and achieving profitable results, in a predictable and an efficient manner.

Perion's Content Monetization Platform (branded as Wildfire) provides publishers with a strategic path to the future. In the face of declining revenues, Wildfire drives incremental growth with traffic that comes from Facebook, Taboola, Yahoo and others leading sources. Wildfire customers include Entrepreneur, Newsweek and Bonnier.

Wildfire platform uses intent signals to keep users engaged – moment-after-moment – by continually optimizing content, advertising and layout within mini-sites operated by the Wildfire platform. Our machine learning employs AI analysis and deploy tens of thousands of combinations of content and advertising. In addition, the Wildfire capabilities allow us to optimize revenue-per-session as well as refine and inform our decision-making by identifying pockets of profitability and loss.

Search monetization solution - Transforming Search into Revenue

Capturing consumers at the moment of highest intent simply works - so it's no wonder that brands and publishers are allocating more and more dollars to search advertising.

Perion, through its publisher network, delivered approximately 16.7 million average daily searches in 2021 compared to 13.4 million daily searches in 2020, which represents an increase of 24% Year-over-Year.

Searching is a fundamental digital habit that we expect will continue to grow and hence we are continuously innovating and advancing our solutions to provide more value to our publishers. We deploy advanced AI, neural networks, and machine learning to optimize yield for our publishers and transform search into revenue.

At Perion we are poised to seize this shift, thanks to our longstanding relationship with Microsoft Bing and other leading search and content partners, across 34 countries.

U.S. search advertising market is estimated at \$97 billion for 2022 according to eMarketer reports, which represents 40% of US digital ad spending. Microsoft Advertising has been our partner for over a decade, and in late 2020 we extended our partnership for four additional years.

In February 2022 we were named Microsoft Advertising's 2021 Supply Partner of the Year EMEA. This prestigious award goes to the business that has shown excellence in partnership with Microsoft Advertising across all areas of collaboration. This recognition is based on key partnership results that include engagement, revenue growth, feature adoption in Search and Native, and the scale of joint activities.

According to Statista, as of April 2021, Microsoft BING had 1.08 billion of unique monthly global visitors, delivered 12 billion monthly searches over PC. According to Statista, as of January 2022, Microsoft BING had 7.61% worldwide PC market share. In addition, it generated approximately \$8.5 billion in revenue in the 2021 fiscal year.

Our Search monetization solution is comprised of the following 3 offerings:

Website Monetization

Leveraging intent signals to deliver text ads, shopping offers, and premium news that enable site owners to gain higher revenues and enhanced user engagement.

Enables media traders to monetize search demand and achieve higher yields by leveraging the machine learning that drives our mediation platform.

App Monetization

Using intent-based search signals to monetize publishers' desktop and mobile apps, white-label search engines, and more.

Paragone's The Cross-Channel Digital Advertising SaaS platform: Maximize Reach, Optimize Revenue, and Improve Efficiency

Paragone allows you to observe, in real time, paid digital advertising activities - across social networks and google - allowing performance marketers to easily identify opportunities for improvement, use AI to predict campaign success, and take action to maximize performance.

Paragone's, through its Cross-Channel Digital Advertising SaaS platform, transferred approximately \$380 million social budget in 2021 compared to \$278 million social budget in 2020, which represents an increase of 37% Year-over-Year.

The steady growth of digital advertising has been accelerated by COVID-19 and the boom in e-commerce. This dramatic shift creates the existential challenge of running scaled campaigns across multiple networks and optimizing them for engagement in real-time. This requires the connection of massive amounts of cross-network data.

We collect and centralize previously siloed data enabling agencies and brands to manage cross-platform campaigns. We identify performance bottlenecks, improve productivity, customize metrics, predict results, and test new networks.

Our platform works with all the largest networks: Facebook, Instagram, Messenger, LinkedIn, Snapchat, Pinterest, Twitter, and Google and synthesizes data from attribution vendor including AppsFlyer, At Internet (Microsoft), Adjust, Moat and Google Analytics. The result is improved productivity and improved ROAS.

Industry Overview

Advertising

Our search advertising and display advertising are driven mainly by the integration of AI-based ad-tech, video, display, search, and social ad units - address the majority of digital ad spend.

Based on eMarketer reports, digital advertising spend accounted for approximately 55% of total worldwide media advertising during 2021, reaching \$492 billion and expected to increase to \$785 billion and approximately 57% of worldwide advertising spend by 2025. In 2021, US display advertising spend, including banners, rich media, video and social, was approximately \$119 billion and expected to increase by 57% and reach \$186 billion in 2025, according to eMarketer.

We believe the continued growth of digital ad spend will, in part, be driven by the convergence of television advertising and digital mediums, including instream and outstream digital video and CTV. Furthermore, cross-channel technologies such as automatic content recognition (ACR), which allows advertisers to connect brand messaging across television and digital channels, will further enable the convergence of ad spend. Our solution positions us in the sweet spot of these trends by providing a connective technology layer, which tracks the entire consumer journey and marketing funnel.

Advertisers, including major brands, are increasingly allocating media advertising budgets to digital channels and formats. While we work with some advertisers directly, our primary customers are advertising and media agencies, who are engaged by brand advertisers to develop and implement their media plans. We work with both sides of the market to plan, design, deliver, manage, and measure their digital advertising investments. We generally do not enter into long term contracts with our advertising customers, but respond to specific campaign requests, and are compensated based on ad formats, campaign complexity, impressions, and creative requirements.

We address the display advertising market through direct and programmatic media sales as well as managed and self-service advertising campaign management tools. Programmatic customers benefit from increased automation, transparency and resulting efficiency. Clients receive support throughout the campaign cycle, which starts with a consultative sales process to shape the best offering for that customer.

Beyond ad-tech automation, advertisers are also increasingly looking for unique ad formats that are able to tell impactful stories on digital, by utilizing content, rich media, and digital video/CTV. We believe the shift beyond standard banner ad formats is unstoppable. Rich media, including our high-impact ad formats, as well as outstream and instream video accounted for \$70 billion of US digital display ad spend in 2021 and is expected to increase by 67%, reaching approximately \$117 billion in 2025, according to eMarketer. Digital video, including instream formats such as “pre-roll” and outstream formats such as “inline” represented the vast majority of rich media ad spend in 2021, topping \$60 billion, and is expected to reach \$105 billion by 2025, representing an increase of 75%, according to eMarketer. US Connected TV accounted for \$10 billion, and is expected to reach \$19 billion by 2023, representing an increase of 90%, according to eMarketer.

Social networks are expected to continue to be a major platform for digital advertising, and with a lot of innovation in the sector, advertisers will look for emerging platforms to reach existing and new audiences. According to eMarketer, in 2021, social networks accounted for \$62 billion representing 29% of the US digital ad spending, which is expected to increase by 32% and reach \$82 billion of US digital ad spending by 2023, which would represent 30% of the US digital ad spending.

Users are devoting more and more time to social networks, estimated to reach approximately 71 minutes per day on social networks in 2022 in the US, representing 15% of time spent on digital media in 2022. Furthermore, emerging and new social networks, such as Instagram, Snapchat and TikTok, are further expanding social networks’ audiences and demographic reach.

It is estimated that 91% of digital display ads will be transacted through programmatic channels by 2023, including programmatic direct and real time bidding (RTB) campaigns, according to eMarketer. Driven by this trend, we invested and continue to make significant investments in AI-based technologies, which optimize both the price and performance of our digital advertising campaigns, including our acquisition of Captain Growth, which automates campaign performance with the capability of testing multiple ads and campaigns in real time.

In light of regulatory developments, including GDPR and CCPA, as well as existing and planned limitations to be enacted by major web browser publishers, including Google (who announced, in March 2021 the phase-out the support for third-party cookies in Chrome), Apple, and Mozilla, we expect advertisers to increasingly seek alternatives to third-party “cookie”-based targeting. We are focusing investments and R&D on opportunities in alternative targeting technologies.

Search

In 2021, US search advertising spend reached \$86 billion and is expected to increase by 42% reaching \$122 billion in 2025, representing 41% of US digital ad spending, according to eMarketer.

Search is the most intent-based form of advertising, as advertisements are served in direct response to the search queries, resulting in relevant advertisements yielding significant revenue to the search engine companies. Our search-related products address the market by engaging with premium search providers like Microsoft, and offer end users the ability to search the internet via easily embedded search functionality in different search assets.

The search engine market is highly competitive as providers such as Google, Microsoft, Verizon Media and other smaller players, seek to gain more market share. We believe such competition will increase the utilization of our search solution, which enables search providers to increase their market share.

The factors that drive the ability of our search engine partners to increase their revenue per search, include the availability of search advertising inventory relative to demand, as well as internal pricing dynamics. As the search market continues to grow and we continue to expand our search solution, the revenue earned by us and our partners is expected to grow as well. An example of such is the launch of our click-to-buy functionality – within user search activity – positions the Company for future growth and revenue.

Growth Strategy

High level Growth Plan

Our strategy is to grow our business by offering innovative and diversified advertising, search, awareness and performance solutions to the world's leading brands, agencies and publishers. These solutions, driven by advanced technology, will make each component of the funnel – awareness, consideration, intent and purchase – operate more effectively.

We will achieve this by offering compelling data-driven, digital advertising solutions and search monetization through holistic customer experiences and innovative platforms that cover the three main pillars of digital advertising - ad search, social media and display / video / CTV.

Growth through Innovation

Innovation, driven by the introduction of new technologies, tools, services and offerings, will address one of our key priorities, which is to make our revenue models more predictable, sustainable and resilient. We are expanding our product portfolio to provide added value to our clients without adding silos and overhead, while always maintaining efficiency across our different business units. The investments we have made in the scale and reach of our business have enabled us to develop a pioneering technology called SORT – Smart Optimization of Relevant Traits – which enables advertisers to identify consumers most likely to respond to their message without resorting to cookies. In fact, third-party research has shown that SORT can outperform cookies. As the industry moves to a post-cookie, privacy-first world, this technology is expected to provide strong competitive differentiation to the Company.

To accelerate this process, we completed several acquisitions, including the most recent acquisitions of Septa Communication LLC in March 2019 (known as “Captain Growth”), the acquisition of Content IQ LLC in January 2020, the acquisition of Pub Ocean in July 2020 and the acquisition of Vidazoo in October 2021, to allow us to expand our capabilities and maximize our existing businesses.

Growth through Connected Devices

Our advertising offering targets 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 and advertising contexts, across all platforms, including video, CTV and iCTV, in brand-safe environments.

Our growth strategy also contemplates the migration to 5G networks and the growing access to high-speed internet. Streaming of video content that takes advantage of faster delivery, as well as the growth of CTV and internet-connected devices, is something we are investing in so we will be able to take advantage of upgraded user experiences.

We also intend to continue to invest in technology, partnerships and sales that offer our advertising clients enhanced features and functionalities to reach their consumers, including through using analytic tools such as ACR (Automated Content Recognition) TV viewership data.

Growth Through iHUB

Our iHUB, connects the supply and demand side assets and processes billions of signals. Our advertisers benefit from both high scale and reach, as well as better matching on a segment basis. This is made possible by our cross-company data layer. This same technology offers customer value to our publishers, delivering more opportunities to monetize their inventory and generate incremental revenue - as we make multiple ad products from different business units available through our unified platform.

Growth Through Search Monetization

Our search monetization solution, leverages our relationship with Microsoft Bing and other leading search and content partners, to drive innovation and revenue based on AI and analytic tools as part of our ongoing effort to provide comprehensive and compelling search solutions and monetization tools to diversified publishers around the globe. We do this through a variety of digital properties, including websites, apps, extensions, and search engines.

In addition to strategically diversifying our revenue sources and extending our products suite and partners, we are embedding our search functionality in our new products, thus increasing our monetization potential.

Technology.

The Design principles of our technologies and research and development efforts consist of the following elements:

- Supply and publisher integration;
- Innovative Creative;
- Demand generation;
- Data and Analytics;
- AI and optimization; and
- Executional channels.

Advertising Solutions

The technology backbone behind our advertising solutions is designed to connect brands with consumers via meaningful digital interactions and experiences. This is done through 8 key components:

1. Supply Management Platform;
2. Demand Management Platform;
3. Analytics Platform;
4. Creative Platform;
5. AI Platform;
6. Actionable Performance Monitoring;
7. Online video player; and
8. Content monetization system.

Supply Management Platform

The Supply management platform operationalizes relationships with our publishers by treating every impression in an optimal manner. According to the business requirements and monetary expectations that derive from which ads are allowed, what prices are expected, and what is the allowable frequency. All components in our supply management platform are based on proprietary technology and are based on our specific needs and use cases.

Demand Management

The demand management platform addresses the needs of advertisers for campaign planning and design with a system that delivers a recommendation that will hit the goals of the advertisers. It will recommend advertising channels, audience targeting strategy and ad product mix which are all based on benchmarks and past experiences of the advertiser. Once the plan is created, the platform pushes instructions to the campaign management system for execution, based on parameters like dates, volume level, list of supply sources and campaign goal.

Analytics Platform

Our Analytics platform provides information and performance insights on the results of campaign investment and other campaign metrics - demonstrating the value of our solutions for our customers. This is a flexible system that reports all the required data based on the delivery of reach and impressions, budget invested engagement metrics, etc. The analytics platform supports our data driven culture – providing business stakeholders full visibility of KPI's on key processes while facilitating data and reporting in a self-service manner, with pre-build dashboards and reports.

Creative Platform

The creative platform is a key component of our solution and allows us to innovate quickly on end user experiences. Our full-blown rich media platform leverages our proprietary ad units, and is tailored to the needs of our advertisers, providing them with a comprehensive solution to create compelling, engaging, dynamic, cross-platform and high-impact advertisements.

AI Platform

Our AI platform uses machine learning to bring deep intelligence to the various phases of campaigns: planning, activation and reporting which utilize models built on top of our data platforms. Based on campaign-to-campaign learnings and heuristics, the platform generates better performance for our customers and improved efficiency by providing rules-based and budget optimizations.

Actionable Performance Monitoring

The Actionable Performance Monitoring platform supports the various phases of campaign management across different channels. The platform manages each of the planning, execution, optimization and measurement phases and simplifies the complexity of cross channel advertising for brands and agencies while optimizing performance through AI in one unified, actionable holistic and intuitive dashboard.

Online video player (OVP)

A proprietary online video player and integrated ad server, which allows publishers and brands to upload, manage and stream video content. Vidazoo's OVP is certified with the major advertising platforms and compatible with all devices and video formats. The Vidazoo OVP is integrated with a proprietary ad server, ensuring a consistent user experience by reducing latency and errors, adding to its inherent power and efficiency.

Content Monetization System

The content monetization system provides publishers the tools to maximize ad revenues from reader sessions. The system integrates ads within the content layouts, at the page level, maintaining a user-friendly experience while driving monetization from a variety of programmatic sources. This system is powered by a highly customized header bidding technology which controls ad delivery with optimal view ability measures.

Search Solution

The technology of our search solution is composed of the following systems:

1. Publishers management system;
2. Search demand management system;
3. Monetization products; and
4. AI system.

Publisher Management System

The publisher management system provides publishers access to an online dashboard providing them analytics and performance optimization tools, as well as reports that enable them to maximize their distribution and monetization.

Search Demand Management System

The search demand management system integrates and onboards demand vendors to our monetization products. The integration supports multiple vendors according to predefined configurations and rules, enabling various business models and offerings.

Monetization Products

Our monetization products are designed to deliver algorithmic search results concurrently with sponsored listings which are served for the same search queries. They can be operationalized in different ways, including the transmission of search queries to search engines such as Bing, search Feed APIs operated on the publisher's domain and an enriched and optimized hosted search results page which offers an enhanced user experience.

AI System

The AI technology behind our search solutions optimizes the various phases of the funnel including intent detection and demand optimization to yield performance optimization and maximized consumer experience.

Products Under Development

Innovation is a core driver of our culture and operations and essential for our growth. Hence we invest substantial resources in research and development to develop new solutions, offerings, applications and services, improve our core technologies and enhance our technology facilities and infrastructure and capabilities. Our research and development activities are primarily conducted internally in Israel and Europe, focusing on the development of new services, platforms and SaaS based solutions that will offer our customers (i) standout brand experience (ii) effective distribution tools, (iii) increased monetization capabilities through content features and applications, and (iv) enhanced optimization via powerful and reliable data analytics driven by AI. 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, 2019, 2020 and 2021.

	2019				2020				2021	
	Search Advertising Revenues		Display Advertising Revenues		Search Advertising Revenues		Display Advertising Revenues		Search Advertising Revenues	
North America (Mainly U.S.)	67	%	91	%	73	%	95	%	80	%
Europe	25	%	9	%	24	%	5	%	18	%
Other	8	%	0	%	3	%	0	%	2	%
Total	100	%	100	%	100	%	100	%	100	%

Intellectual Property

Our research and development efforts and the underlying proprietary technologies, solutions and products we develop, are meaningful to our operations and competitive advantage and we rely upon trade secret, trademark, copyright, and patent laws in the United States and abroad to establish and protect our 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, services, 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 former German and U.K. employees) also contain assignment and waiver provisions relating to the employee's or consultant's rights in respect of inventions.

Competition

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

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

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

As we innovate evolve and introduce new solutions, and as our competitors as well as other companies introduce new products and services, we may be subject to additional competition. 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 California Consumer Privacy Act, which provides data privacy rights for consumers and operational requirements for companies, 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. In addition to the CCPA, the California Privacy Rights Act ("CPRA") which passed in November 2020 will take effect in January 2023, will expand the rights granted under the CCPA and impose additional notice and opt out obligations, including an obligation to provide an opt-out for behavioral advertising 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 personal 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 made at such person's free will and consent; the purpose for which the information is requested; and to whom the information is to be delivered and for which purposes. A breach of privacy under such laws is considered a civil wrong and subject to administrative fines as well as civil damages. Certain violations of the law are considered criminal offences punishable by imprisonment. In the European Union, similar data protection rules exist as well as privacy legislation restricting the use of cookies and similar technologies. Subject to some limited exceptions, the storing of information, or the gaining of access to information already stored, in the terminal equipment of a subscriber or user is only allowed on condition that the subscriber or user concerned has given his or her informed consent. 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.

Recent Acquisitions

Acquisition of Vidazoo

On October 4, 2021, we entered into and consummated a Share Purchase Agreement, for the acquisition of all the shares of Vidazoo, an Israeli privately held company founded in 2014. Vidazoo is a leading video technology company that enables both advertisers and publishers to deliver high impact content and advertising to consumers. The acquisition was made for a total consideration of \$93.5 million, consisting of \$35.0 million in cash upon closing with an additional maximum of \$58.5 million structured as a performance earn-out, if certain EBITDA-based targets are achieved.

Acquisition of Content IQ

On January 14, 2020, we entered into and consummated a Membership Interest Purchase Agreement, or MIPA, with Asaf Katzir and Ziv Yirmiyahu, or the Sellers, Content IQ and Perion for the acquisition of all the shares of Content IQ, a privately held company founded in 2014, based in New York City with offices in Tel Aviv. Content IQ has created data algorithm and analytics tools that deconstruct content, revenue and distribution to solve digital publishing challenges. The acquisition was made for a total consideration of \$73.05 million, of which \$15 million in cash was paid upon closing, with an additional maximum \$11 million will be paid as a retention incentive. As part of the total consideration, there is a maximum of \$47.05 million in earn-outs over a period of two years. The earn-outs are tied to revenue and EBITDA-based metrics that would be paid in full if Content IQ generates \$158 million in revenue and more than \$17 million of EBITDA in aggregate, over the next two years. The agreement also contains customary representations, warranties, covenants and indemnification provisions.

On July 22, 2020, in connection with the acquisition of Pub Ocean, we amended the MIPA. Under the terms of the amended MIPA, it was agreed with the Sellers, that (i) revenue and EBITDA of Pub Ocean will be attributed towards Sellers' revenue and EBITDA targets under the MIPA with Perion; and (ii) Sellers will bear 40% of the cost of milestone payments that are ultimately payable to Pub Ocean under the Asset Purchase Agreement (as defined below), which will be paid solely by deductions from their own earn-out payments and certain escrowed amounts.

Acquisition of Pub Ocean

On July 22, 2020, we entered into an agreement to acquire the assets of Pub Ocean, or the Asset Purchase Agreement a rapidly-growing digital publisher-focused technology company with scalable content distribution and real-time revenue analytics technology. Pub Ocean offers significant and immediate synergies to Content IQ, driving incremental revenue opportunities and enhanced profitability. The acquisition was for an aggregate cash consideration of up to \$22 million, of which (i) \$4 million was paid upon signing, (ii) \$17 million of earn-out payments tied to financial targets to be paid over a two-year period, and (iii) an additional amount of \$1 million in retention incentives to be paid over a two-year period. The agreement also contains customary representations, warranties, covenants and indemnification provisions.

Search Services Agreement with Microsoft

In November 2020, we entered into a renewed agreement with Microsoft Ireland Operations Limited effective as of January 1, 2021 until December 31, 2024 which includes desktop and mobile distribution with limited exclusivity in the United States and an extended geography distribution.

C. ORGANIZATIONAL STRUCTURE

Our subsidiaries and the countries of their incorporation are as follows:

- Codefuel Ltd., our wholly-owned Israeli subsidiary, incorporated on November 6, 2019.
- Incredimail, Inc., our wholly-owned Delaware subsidiary, owns all of the outstanding shares of common stock of Smilebox Inc., a Washington corporation and all of the outstanding shares of common stock of IncrediTone Inc. and Pub Ocean Inc., our wholly-owned Delaware subsidiaries. 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.
- Content IQ LLC, our wholly-owned New York subsidiary, was acquired in January 2020, owns all of the membership interest of BT Media LLC, a Nevada limited liability company.
- Pub Ocean Media UK Limited, our wholly-owned England and Wales subsidiary, was incorporated in July 2020.
- Make Me Reach SAS, dba Paragone, our wholly owned French subsidiary, was acquired in February 2015.
- Portilev Ltd., our wholly-owned Israeli subsidiary, incorporated on September 22, 2019 and was merged into the Company on October 25, 2021.
- Vidazoo Ltd., our wholly-owned Israeli subsidiary, was acquired on October 4, 2021.

D. PROPERTY, PLANTS AND EQUIPMENT

Our headquarters are located in Holon, Israel. As of December 31, 2021, we lease approximately 36,113 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 at its sole discretion and upon 180-day prior written notice. Annual net cost is approximately \$0.8 million.

As of December 31, 2021, we lease office spaces 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 2021 in US\$ in thousands (net)	Lease expires on (not including options)
New York, New York	25,550	\$ 1,737	2026
Chicago, Illinois	3,984	\$ 89	2023

Undertone's offices are located at the World Trade Center (WTC) New York and Chicago, pursuant to a lease agreement that expires in May 2026 and September 2023, respectively. Under the lease agreement, we are entitled to terminate the lease of our offices in New York in 2024, at our sole discretion.

ITEM 4A. 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 consolidated 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 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 holistic strategic business solutions that enable brands and advertisers to efficiently "Capture and Convince" users across multiple platforms and channels, including interactive connected television – or iCTV. Perion achieves this through its Synchronized Digital Branding capabilities, which are focused on high impact creative; content monetization; its branded search network, in partnership with Microsoft Bing; and social media management that orchestrates and optimizes paid advertising. This diversification positions Perion for growth as budgets shift across categories.

Our headquarters and primary research and development facilities are located in Israel and Kiev, 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:

Revenue

We generate our revenue primarily from two major sources: (i) Display Advertising; and (ii) Search Advertising. The following table shows our revenue by category (in thousands of U.S. dollars):

	Year Ended December 31,	
	2020	2021
Display Advertising	\$ 148,698	\$ 265,323
Search Advertising	179,365	213,175
Total Revenue	\$ 328,063	\$ 478,498

In 2021, revenue increased by 46% compared to 2020, primarily due to 78% growth in Display Advertising resulting from growth in video and CTV. Search Advertising revenue increased by 19% as a result of higher numbers of daily monetizable searches that were delivered to Microsoft Bing and others as well as increased numbers of publishers.

Cost of Revenue

Cost of revenue consists primarily of salaries and related expenses, license fees and payments for content and server maintenance. Cost of revenue were \$22.5 million or 7% of revenue in 2020 and \$25.2 million or 5% of revenue in 2021. The decrease as a percentage of revenue results from our efforts to enhance process automation, the iHUB that acts as a shared infrastructure resource and offshoring our operations.

The number of employees included in cost of revenue as of December 31, 2020 and 2021 were 73 and 83, respectively.

Traffic Acquisition Costs and Media Buy

Our traffic acquisition costs and media buy 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. In addition, media buy costs consist of the costs of advertising inventory incurred to deliver ads. Traffic acquisition costs are primarily based on revenue share agreements with our traffic sources and the media buy cost are primarily based on CPC and CPM. Customer acquisition and media buy costs were \$197.6 million or 60% of revenue and \$288.0 million or 60% of revenue in 2020 and 2021, respectively. The stabilization of traffic acquisition costs and media buy level results from the continuous iHUB efforts to serve direct demand and supply in a closed loop and the product mix.

Research and Development Expenses

Our research and development expenses consist primarily of salaries and other personnel-related expenses, allocated facilities costs, subcontractors and consulting fees. Research and development expenses were \$30.9 million or 9% of revenue in 2020 and \$35.3 million or 8% of revenue in 2021. Our research and development expenses in 2021 increased compared to the prior year, primarily as a result of full year of payroll and subcontractors expenses related to the acquisition of Pub Ocean (in July 2020), the acquisition of Vidazoo (in October 2021) and our continued investment in technology to strengthen our technology moat.

The number of employees in research and development were 135 and 115 as of December 31, 2020 and 2021, respectively.

Selling and Marketing Expenses

Our selling and marketing expenses consist primarily of salaries and other personnel-related expenses, allocated facilities costs, as well as other outsourced marketing activities. Selling and marketing expenses were \$39.1 million or 12% of revenue in 2020 and \$53.2 million or 11% of revenue in 2021. The increase was primarily as a result of full year of payroll and related expenses related to the acquisitions of Pub Ocean (in July 2020), the acquisition of Vidazoo (in October 2021) as well as headcount increase, overachievement commissions, retention plans related to acquisitions and increased stock-based compensation expenses.

The number of employees in sales and marketing was 146 and 154 as of December 31, 2020 and 2021, respectively.

General and Administrative Expenses (“G&A”)

Our general and administrative expenses consist primarily of salaries and other personnel-related expenses, allocated facilities costs, professional fees and other general corporate expenses. General and administrative expenses were \$15.8 million or 5% of revenue in 2020 and \$20.9 million or 4% of revenue in 2021. The increase was primarily due to headcount increase, overachievement bonuses, increased stock-based compensation expenses and consulting expenses related to M&A transactions.

The number of G&A employees was 63 and 68 as of December 31, 2020 and 2021, respectively.

Impairment, loss of goodwill on intangible assets

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.

Following an impairment review of our goodwill and intangible assets for 2020 and 2021, it was concluded that no such impairment charges should be recorded.

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 in 2020 and 2021 were \$9.9 million.

Income Tax Expense

A significant portion of our income is taxed in Israel and, as a result of previous acquisitions, in the United States. The standard corporate tax rate in Israel was 23% in 2020 and 2021. 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% has applied to our preferred income in 2016. Starting in 2017 and in 2018, 2019, 2020 and 2021, 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 the standard corporate tax rate. With respect to U.S. tax, we continue to utilize accumulated losses. The federal statutory income tax rate in the United States was 21% in 2018, 2019, 2020 and 2021. Subsidiaries in Europe are taxed according to the tax laws in their respective countries of residence.

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, revenue 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 stock-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 our board of directors' 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 2021 was \$7.0 million, of which \$0.2 million was included in cost of revenue, \$1.0 million in research and development costs, \$3.2 million in selling and marketing expenses, and \$2.6 million in general and administrative expenses.

As of December 31, 2021, the maximum total compensation cost related to options, granted to employees and directors not yet recognized amounted to \$16.3 million. This cost is expected to be recognized over a weighted average period of 1.59 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.

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, 2021 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.

No impairment of goodwill charges were recorded in 2020 nor 2021.

Impairment of Long-Lived Assets

We are required to assess the impairment of tangible and intangible long-lived assets and right-of-use 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 2020 and 2021 no impairment of long-lived assets charges were recorded.

Derivative and Hedge Accounting

During fiscal 2020 and 2021, approximately 8% 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.

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 expenses.

Recent Accounting Standards

In December 2019, the FASB issued Accounting Standards Update No. 2019-12, Income Taxes (Topic 740): “Simplifying the Accounting for Income Taxes”, which simplifies the accounting for income taxes. This guidance will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020, and early adoption is permitted. The adoption of this standard did not have a material impact on the Company’s condensed consolidated financial statements.

In October 2021 the FASB issued Accounting Standards Update No. 2021-08, Business Combinations (Topic 805): “Accounting for Contract Assets and Contract Liabilities from Contracts with Customers”. The amendments in this update require that an entity (acquirer) recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with Topic 606. At the acquisition date, an acquirer should account for the related revenue contracts in accordance with Topic 606 as if it had originated the contracts. To achieve this, an acquirer may assess how the acquiree applied Topic 606 to determine what to record for the acquired revenue contracts. The amendments in this update are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years, and early adoption is permitted. The Company is currently assessing the impact of the new guidance 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,	
	2020	2021
Cost of revenue	\$ 22,477	\$ 25,197
Traffic acquisition costs and media buy	197,626	288,018
Research and development	30,880	35,348
Selling and marketing	39,085	53,209
General and administrative	15,819	20,933
Depreciation and amortization	9,923	9,897
Total Costs and Expenses	\$ 315,810	\$ 432,602

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

	Year Ended December 31,	
	2020	2021
Revenue:		
Display Advertising	45%	55%
Search Advertising	55	45
Total revenue	100%	100%
Costs and expenses:		
Cost of revenue	7%	5%
Traffic acquisition costs and media buy	60	60
Research and development	9	8
Selling and marketing	12	11
General and administrative	5	4
Depreciation and amortization	3	2
Total costs and expenses	96	90
Operating income	4	10
Financial expenses, net	1	(0)
Income before taxes on income	3	10
Income tax expense (benefit)	(0)	2
Net Income	3%	8%

Year Ended December 31, 2021 Compared to Year Ended December 31, 2020

Revenue. Revenue increased by 46%, from \$328.1 million in 2020 to \$478.5 million in 2021.

Display Advertising revenue. Display Advertising revenue increased by 78% in 2021, from \$148.7 million in 2020 to \$265.3 million in 2021. This increase was a result of the acceleration of our Connected TV advertising offering.

Search Advertising revenue. Search Advertising revenue increased by 19% in 2021, from \$179.4 million in 2020 to \$213.2 million in 2021. This increase is result of higher numbers of daily monetizable searches that were delivered to Microsoft Bing and others as well as increased numbers of publishers.

Cost of revenue. Cost of revenue increased by 12%, from \$22.5 million in 2020 to \$25.2 million in 2021. Cost of revenue decreased in terms of the percentage of revenue, representing 7% of revenue in 2020 and 5% in 2021. The decrease as a percentage from revenue results from our efforts to enhance process automation, the iHUB that acts as a shared infrastructure resource and offshoring our operations.

Traffic acquisition costs ("TAC") and media buy. TAC and media buy increased by 46%, from \$197.6 million or 60% of revenue in 2020 to \$288.0 million or 60% of revenue in 2021. The stabilization of traffic acquisition costs and media buy level results from the continuous iHUB efforts to serve direct demand and supply in a closed loop and the product mix.

Research and development expenses ("R&D"). R&D increased by 14%, from \$30.9 million in 2020 to \$35.3 million in 2021. Our research and development expenses in 2021 increased compared to the prior year, primarily as a result of full year of payroll and subcontractors expenses related to the acquisition of Pub Ocean (in July 2020), the acquisition of Vidazoo (in October 2021) and our continued investment in technology to strengthen our technology moat.

Selling and marketing expenses ("S&M"). S&M expenses increased by 36%, from \$39.1 million in 2020 to \$53.2 million in 2021. The increase was primarily as a result of full year of payroll and related expenses related to the acquisitions of Pub Ocean (in July 2020), the acquisition of Vidazoo (in October 2021) as well as headcount increase, overachievement commissions, retention plans related to acquisitions and increased stock-based compensation expenses.

General and administrative expenses ("G&A"). G&A increased by 32%, from \$15.8 million in 2020 to \$20.9 million in 2021. The increase was primarily due to headcount increase, overachievement bonuses, increased stock-based compensation expenses and consulting expenses related to M&A transactions.

Depreciation and amortization. Depreciation and amortization expenses remained stable in the amount of \$9.9 million in 2021 and 2020. 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.

Taxes on income (benefit). Taxes on income increased by \$7.2 million from a tax income of \$0.6 million in 2020 to \$6.6 million tax expense in 2021. The increase was primarily a result of higher pre-tax income in 2021 (\$9.6 million pre-tax tax income in 2020 vs. \$45.3 million pre-tax income in 2021) in addition to internal entities merger completed during 2020, which enabled the company to utilize its tax attributes more efficiently.

B. LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2021, we had \$321.6 million in cash, cash equivalents and short-term deposits, compared to \$60.4 million at December 31, 2020. The \$261.3 million increase is primarily the result of \$230.5 million cash provided from issuance of shares in private placement, net, \$71.1 million cash provided by operating activities and \$6.9 million cash provided from exercise of share options, offset by \$38.4 million cash paid in connection with acquisitions and \$8.3 million repayment of our debt and \$0.5 million used in other investing activities.

Net cash provided by operating activities

In 2021, our operating activities provided cash in the amount of \$71.1 million, primarily as result of income in the amount of \$38.7 million, decreased by non-cash expenses, depreciation and amortization of \$9.9 million, stock-based compensation expenses of \$7.0, change in Accrued severance pay, net of \$0.7 and net change of \$17.7 million in operating assets and liabilities million offset by change in deferred taxes of \$2.8 million.

In 2020, our operating activities provided cash in the amount of \$22.2 million, primarily as result of income in the amount of \$10.2 million, decreased by non-cash expenses, depreciation and amortization of \$9.9 million, stock-based compensation expenses of \$4.4, change in payment obligation related to acquisitions of \$4.6 million offset by change in deferred taxes of \$3.1 million and net change of \$3.9 million in operating assets and liabilities.

Net cash used in investing activities

In 2021, we used in our investing activities \$243.5 million cash, primarily due to \$204.5 million investment in short-term deposits, \$38.4 million cash paid in connection to acquisitions and \$0.5 million purchase of property plant and equipment.

In 2020, we used in our investing activities \$8.9 million cash, primarily due to \$19.0 million cash paid in connection to acquisitions and \$0.5 million purchase of property plant and equipment offset by a \$10.5 million withdrawal from short-term deposits.

Net cash used in financing activities

In 2021, our financing activities provided cash in the amount of \$229.1 million, primarily due to \$230.5 million issuance of shares in private placement, net, and exercise of options in the amount of \$6.9 million, offset by \$8.3 million repayment of our long-term loan.

In 2020, we used in our financing activities \$4.0 million cash, primarily due to \$8.3 million repayment of our long and short-term loan offset by proceeds from exercise of options in the amount of \$4.3 million.

Bank Mizrahi Credit Facility

On December 17, 2018, ClientConnect Ltd. (“ClientConnect”), a former Israeli subsidiary of Perion, which merged into Perion on June 30, 2020, executed a new loan facility with Bank Mizrahi in the amount of \$25 million. As of March 8, 2021, this credit facility was repaid in full.

Financing Needs

We believe that our current working capital and cash flow from operation, in addition to proceeds from our January 2022 public offering, are sufficient to meet our operating cash requirements for at least the next twelve months, including payments required under our existing bank loans.

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, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

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

Our research and development activities are conducted internally by 115 persons at December 31, 2021. Research and development expenses were \$30.9 million and \$35.3 million in the years ended December 31, 2020 and 2021, respectively. In 2021, our efforts were focused on adapting, extending (organically and in-organically through acquisitions) 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 revenue, 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. Through Content IQ, we provide advertisers the ability to serve advertisements which are targeted to the end-user’s interests alongside relevant optimized content and page-level reader engagement. 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 revenue 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 revenue 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.D "Key Information—Risk Factors."

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

E. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The following table summarizes our contractual commitments as of December 31, 2021 and the effect those commitments are expected to have on our liquidity and cash flow in future periods. All numbers below are in US dollars in thousands.

Contractual Commitments as of December 31, 2021	Payments Due by Period ^(****)				
	Total	Less than 1 year	1-3 Years	3-5 Years	More than 5 Years
Accrued severance pay ⁽¹⁾	2,371				
Uncertain tax positions (ASC-740) ⁽²⁾	6,928				
Operating leases	15,368	4,485	8,205	2,678	-
Total	<u>\$ 24,667</u>	<u>\$ 4,485</u>	<u>\$ 8,205</u>	<u>\$ 2,678</u>	<u>\$ -</u>

(1) 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. Of this amount, \$1.8 million is unfunded as of December 31, 2021. Since we are unable to reasonably estimate the timing of settlement, the timing of such payments is not specified in the table. See also Note 2 to our consolidated financial statements appearing in "ITEM 18. Financial Statements" of this annual report.

(2) Consists of accruals for certain income tax positions under ASC 740 that are paid upon settlement, and for which we are unable to reasonably estimate the ultimate amount and timing of settlement. See Note 14(h) to our consolidated financial statements included in ITEM 18 of this annual report for further information regarding our liability under ASC 740. Payment of these obligations would result from settlements with tax authorities. Due to the difficulty in determining the timing of resolution of audits, these obligations are only presented in their total amount.

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 5, 2022:

Name	Age	Position
Eyal Kaplan*(1)(2)	62	Chairman of the Board of Directors
Doron Gerstel	61	Chief Executive Officer; Director
Maoz Sigron	44	Chief Financial Officer
Dror Erez*(1)(3)	52	Director
Sarit Firon*(1)(4)	55	Director
Rami Schwartz* (3)(4)	64	Director
Michael Vorhaus*(2)(4)	64	Director
Joy Marcus*(2)(3)	60	Director
Daniel E. Aks	62	President, Undertone
Tal Jacobson	47	General Manager, CodeFuel
Eliran Ben Yehuda	37	General Manager, CIQ

* "Independent director" under the Nasdaq Listing Rules.

(1) Member of our investment committee.

(2) Member of our nominating and governance committee.

(3) Member of our compensation committee.

(4) Member of our audit committee.

Effective as of August 26, 2019, our board of directors adopted the exemption under the Israeli Companies Regulations (Reliefs for Public Companies whose Shares are Listed on a Stock Exchange Outside of Israel), 2000, or the Regulation, as a result our director in office who was elected and classified as external director, Ms. Sarit Firon, is no longer classified as such under the Companies Law. The transition rules set forth under the Regulation provide that such former external directors have the right to remain in office as company's directors at their option after the exemption under the Regulation is adopted until the earlier of such directors' original end of term of office or the second annual meeting of shareholders after the adoption of the exemption under the Regulation. Ms. Sarit Firon's term of office expired in January 2020, however our board of directors has re-appointed Ms. Firon with the term of office that expired on our 2021 annual meeting of shareholders. Ms. Sarit Firon was re-elected on our 2021 annual general meeting of shareholders to serve as our director until our 2024 annual general meeting of shareholders.

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 chairperson of the board of directors of the Company since May 2018. Mr. Kaplan is also the chairperson 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 chairperson 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 B.Sc. in Economics and Management from the Technion Institute of Technology in Haifa, and an MBA from Tel Aviv University.

Maaz 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 and in May, 2018 became Conduit's chairperson of the board of directors for a year. Mr. Erez is also a member of the Conduit board of directors. Mr. Erez is now acting as a CEO of Trevi, io and is also advising for startups on strategy, product and technology. Prior to founding Conduit, he served in various executive roles in private technology companies. Mr. Erez 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 and following the Company's opt out from the Israeli external directors regime in August 2019, continued as an independent director. Ms. Firon is managing partner of Team8 Group and co-founder and managing partner of Team8 Capital, the investment arm of Team8 Group, which invests in early stage technology startups. Previously, she was 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 directors 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 been a director of the Company since January 2019. Mr. Schwartz 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 chairperson 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.

Michael Vorhaus has been a director of the Company since April 2015. Mr. Vorhaus also serves as a director of Altimar Acquisitions Corporation (NYSE: ATAC). 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.

Joy Marcus has been a director of the Company since November 2019. Ms. Marcus has a wealth of experience in the media industry, including as EVP and GM Digital Video at Conde Nast Entertainment, CEO of Bloglovin' (acquired by Impact), SVP Global Marketing Solutions at Time Warner (now WarnerMedia), VP International at MTV Networks, a division of Viacom and GM North America for Dailymotion (acquired by Orange/France Telecom). Ms. Marcus is a board member at digital media company Qwire and the non-profits New York Tech Alliance, The Video Consortium and Hoops4Hope. Joy is currently Co-Founder of the female focused investment group Brilliant Friends, a full-time Lecturer at Princeton University, where she was the James Wei Visiting Professor in Entrepreneurship in 2014, and a Venture Fellow at VC firm JVP, where she advises the firm on digital media, advertising and consumer investments. Joy graduated with Magna Cum Laude, Phi Beta Kappa from Princeton University, has a JD from NYU Law School and completed the management course in finance and accounting from Columbia University.

Daniel E. Aks has been the President of Undertone since August 2019 and an external director of the Company from August 2018 until August 2019. 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.

Tal Jacobson has been the General Manager of CodeFuel since November 2018. Mr. Jacobson has been an executive in the Israeli high-tech industry for over 20 years. Previously to joining Perion, Mr. Jacobson 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, Mr. Jacobson was the VP of Business at McCann Erickson as well as held the position of CEO at Watchitoo - a video collaboration platform. Mr. Jacobson was also the Director of Business Development at AOL as part of the IM division (ICQ).

Eliran Ben Yehuda has been the General Manager of CIQ since January 2022. Mr. Ben Yehuda has served in senior management positions for over 10 years. Prior to joining Perion, Mr. Ben Yehuda served as a Director at Taboola.com Ltd. (TBLA, TBLAW), where he also served as country manager for Israel. Mr. Ben Yehuda also serves as an advisory board member for Papaya Global Ltd. Mr. Ben Yehuda holds an LL.B and B.A. in Business Administration both from Reichman 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 (4 persons) for the year ended December 31, 2021, was approximately \$6.8 million, which included approximately \$0.4 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, 2021 was approximately \$0.4 million. In addition, our directors are reimbursed for expenses incurred in order to attend board of directors or committee meetings.

In the year ended December 31, 2021, we granted to our officers (i) 157,700 restricted share units (“RSUs”), which vest over a three-year period; and (ii) 110,300 performance-based share units (“PSUs”), linked to certain financial KPI’s. These awards were granted under our Equity Incentive Plan, as amended, formerly known as the 2003 Israeli Share Option Plan (the “Incentive Plan”).

In 2021, we paid each of our non-executive directors \$50,000 per year. Following the approval of the annual general meeting of our shareholders held on December 23, 2020, the annual equity grant structure to our non-executive directors has been changed from a grant of options to a grant of RSUs, with a variable value based on the role held by such member of the board of directors. With respect to new appointed directors, such grant shall be made initially upon the initial election or appointment and on each anniversary of such date. With respect to our incumbent non-executive directors, the initial grant, was made on February 6, 2021, the date of the first anniversary of the most recent option grant. Such RSU grant was made in lieu (and not in addition) to the scheduled grant of options to our directors. The RSUs granted are subject to the terms and conditions of the Incentive Plan and the RSU agreement pursuant to the Incentive Plan. The RSUs shall vest on a quarterly basis, in equal tranches, during the year following the grant. All unvested RSUs held by a director in office will automatically vest 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, or (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 “Change of Control”). Accordingly, each non-executive director was granted with an annual RSU grant according to his/her role, with a value as follows:

- chairperson of our audit committee: \$110,000;
- chairperson of our compensation committee: \$107,500;
- chairperson of our nominating and governance committee: \$105,000; and
- other non-executive directors: \$97,500.

The compensation we paid to our chairman of the board of directors, Mr. Kaplan, for the year ended December 31, 2021 was \$100,000 plus VAT, paid in four quarterly payments and reimbursement of out-of-pocket expenses incurred in connection with Mr. Kaplan’s services as chairman. Mr. Kaplan is also entitled for indemnification and liability insurance as provided to other members of the board of directors. Mr. Kaplan’s services agreement also includes customary non-disclosure, non-compete, and ownership assignment of intellectual property undertakings.

Following the approval of the extraordinary general meeting of our shareholders held on August 2, 2018, Mr. Kaplan was granted with a one-time grant of options to purchase 66,666 Ordinary Shares, with a 3-year vesting schedule, commencing on May 9, 2018 (the “August 2018 Grant”). In addition, following the approval of the annual general meeting of our shareholders held on February 6, 2020, and subject to the continued engagement as our chairman of the board of directors, Mr. Kaplan was granted with a one-time grant of options to purchase 90,000 Ordinary Shares with a 3-year vesting schedule (the options will vest quarterly in equal tranches over a three-year period), commencing on May 9, 2021, at an exercise price per share equal to the average stock market price of the 90 days period preceding the date of the general meeting of our shareholders, as reported by the Nasdaq Stock Market (together with August 2018 Grant, the “Chairperson’s Previous Grants”). The options granted are subject to the terms and conditions of the Incentive Plan and the option agreement pursuant to the Incentive Plan. Upon removal of Mr. Kaplan from office either by a vote of the board of directors or by a vote of the Company’s shareholders, either (i) as a direct result of the negotiation of a Change of Control; or (ii) within six months following a Change of Control event (for the avoidance of doubt, in both (i) and (ii), other than for “cause” – as such term defined in the Incentive Plan) all unvested options shall automatically be accelerated and become fully vested on the effective date of any such event described in either (i) or (ii).

Following the approval of the annual general meeting of our shareholders held on December 23, 2020, the equity grant structure to Mr. Kaplan, our chairperson of the board of directors, was changed as well, from grant of option to grant of RSUs. Accordingly, Mr. Kaplan was granted an annual grant with a value of up to \$200,000, such annual grant, which shall be made in the form of RSUs, shall be equal to the difference between the fair market value per vesting annum of the Chairperson’s Previous Grants and the approved cap of \$200,000. The initial grant was made on February 6, 2021. With respect to new appointed chairperson of our board of directors, such grant shall be made initially upon the initial election or appointment and on each anniversary of such date. The RSUs granted are subject to the terms and conditions of the Incentive Plan and the RSU agreement pursuant to the Incentive Plan. The RSUs shall vest on a quarterly basis, in equal tranches, during the year following the grant. All unvested RSUs held by a chairperson in office will automatically vest upon a Change of Control event. In addition, the Company’s shareholders approved a one-time special grant of 19,000 fully vested RSUs. The grant date of the special grant is the date of our board of directors’ approval which occurred on October 27, 2020.

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, 2021. 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, 2021, 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 Executives 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	634	1,254	946	2,834
Maoz Sigron, Chief Financial Officer	343	535	514	1,392
Daniel E. Aks, President, Undertone Business Unit	540	600	202	1,342
Tal Jacobson, General Manager, CodeFuel Business Unit	387	677	260	1,324

(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 "k^{er}en 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, 2021. 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 130,000 (equivalent to approximately \$41,800), effective as of January 1, 2021, as approved by the annual general meeting of our shareholders held on December 23, 2020. Mr. Gerstel also entitled to 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 a target annual cash bonus of up to a maximum of twelve (12) monthly salaries, or eighteen (18) in case of over achievement, 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. In addition, our compensation committee and the board of directors are authorized to grant Mr. Gerstel, from time to time, a special bonus in accordance with and subject to our Compensation Policy for Directors and Officers.

Upon joining the Company, 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 \$4.89 (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 Mr. Gerstel 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 0.9% of the outstanding ordinary shares as of March 5, 2022.

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.

At the extraordinary meeting of our shareholders held on April 11, 2019, Mr. Gerstel was granted with additional 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), commenced on January 15, 2019 (the "2019 Options"). The exercise price per share for the shares underlying the 2019 Options is as follows: (i) the first 75,000 of shares underlying the 2019 Options 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 2019 Options will be exercised at a price per share equal to \$3.30 which is a price 15% higher than the Base PPS. The 2019 Options will be subject to the terms and conditions of the Company's Incentive Plan, as amended and the terms of the option agreement issued to Mr. Gerstel pursuant to the Company's Incentive Plan. 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 Board Event measured as of the date of the shareholders meeting).

Each grant constitutes approximately 0.2% of the outstanding ordinary shares as of March 5, 2022.

At the annual general meeting of our shareholders held on December 23, 2020, Mr. Gerstel was granted with 500,000 RSUs, which is vesting over a three-year period commenced on February 1, 2021, with a 6-month cliff after which the RSUs will continue to vest on a quarterly basis over the following ten (10) quarters, unless such RSUs have been cancelled in accordance with the employment terms of Mr. Gerstel (the "RSU Grant"). The grant date is the date of the board of directors' approval, which occurred on October 27, 2020. The vesting schedule of the RSU Grant will fully accelerate in accordance with the acceleration provisions of the options previously granted to Mr. Gerstel (with Change in Board Event measured as of the date of the shareholders meeting). Consistent with the previous options grants granted to Mr. Gerstel, the RSU Grant will be subject to the same terms and conditions of prior grants, the terms and conditions of the Company's Incentive Plan and the terms of the grant agreements issued to Mr. Gerstel pursuant to the Company's Incentive Plan.

Such grant constitutes approximately 1.1% of the outstanding ordinary shares as of March 5, 2022.

In addition, at the same meeting, our shareholders approved a one-time grant to Mr. Gerstel of performance based options to purchase 225,000 ordinary shares linked to certain KPI's in connection with the renewal of the strategic partnership agreement with Microsoft Bing (the "2020 Options"), approved by our board of directors on July 28, 2020, to those members of our management who participated in the efforts for the renewal of the strategic partnership for a period of four additional years, whereas 50% of the 2020 Options vested upon the renewal of the Search Distribution Agreement by and between the Company and Microsoft Ireland Operations Limited which occurred on November 2, 2020 (the "Renewal Date"), and the remaining 50% of the 2020 Options will vest in two equal portions on each anniversary of the Renewal Date. The exercise price per share for the ordinary shares underlying the 2020 Options is the weighted average closing price of our ordinary shares in the last 90 days, as reported by the Nasdaq Stock Market, prior to the date of approval of the grant by the board which occurred on July 28, 2020. The vesting schedule of the 2020 Options will fully accelerate in accordance with the acceleration provisions of the options previously granted to Mr. Gerstel (with Change in Board Event measured as of the date of the shareholders meeting). Consistent with the previous options grants granted to Mr. Gerstel, the 2020 Options will be subject to the same terms and conditions of prior grants, the terms and conditions of the Company's Incentive Plan and the terms of the grant agreements issued to Mr. Gerstel pursuant to the Company's Incentive Plan.

Such grant constitutes approximately 0.5% of the outstanding ordinary shares as of March 5, 2022.

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

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

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

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

The employment term is for an indefinite period. 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 waives its right to continued service. In the event of termination for "Cause" (as defined in the employment agreement), we may terminate the employee without prior notice.

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

C. BOARD PRACTICES

Corporate Governance Practices

We are incorporated in Israel and therefore are subject to various corporate governance practices under the Companies Law, relating to such matters as external directors (or, to the extent applicable, the provisions of the opt-out from 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 5, 2022, our board of directors consists of seven directors. Our directors (other than the directors who were in the position of external directors until August 2019) 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. Effective as of August 2019, following our adoption of the exemption under the Israeli Companies Regulations (Reliefs for Public Companies whose Shares are Listed on a Stock Exchange Outside of Israel), 2000, or the Regulation, our director in office who was elected and classified as external directors, Ms. Sarit Firon, is no longer classified as such under the Companies Law. The transition rules set forth under the Regulation provide that such directors have the right to remain in office as our directors at their option after the exemption under the Regulation is adopted until the earlier of such directors’ original end of term of office or the second annual meeting of shareholders after the adoption of the exemption under the Regulation. Ms. Firon’s term of office expired in January 2020, accordingly our board of directors has re-appointed Ms. Firon with the term of office that expired as of our 2021 annual meeting of shareholders. Ms. Sarit Firon was re-elected on our 2021 annual general meeting of shareholders to serve as our director until our 2024 annual general meeting of shareholders.

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.

Pursuant to regulations promulgated under the Companies Law, companies with shares traded on a U.S. stock exchange, including the Nasdaq Global Select Market, may, subject to certain conditions, "opt out" from the Companies Law requirements to appoint external directors and related Companies Law rules concerning the composition of the audit committee and compensation committee of the board of directors. In accordance with these regulations, in August 2019, we elected to "opt out" from the Companies Law requirements to appoint external directors and related Companies Law rules concerning the composition of the audit committee and compensation committee of the board of directors (the "Opt-Out").

Under these regulations, the exemptions from such Companies Law requirements will continue to be available to us so long as: (i) we do not have a "controlling shareholder" (as such term is defined under the Companies Law), (ii) our shares are traded on a U.S. stock exchange, including the Nasdaq Global Select Market, and (iii) we comply with the director independence requirements, the audit committee and the compensation committee composition requirements, under U.S. laws (including applicable Nasdaq Rules) applicable to U.S. domestic issuers.

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. Michael Vorhaus and Mr. Rami Schwartz, 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. 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

Pursuant to the Companies Law, the compensation committee of a public company must be comprised of at least three directors, include all of the external directors (and also the chairman is required to be an external director), and any other members must satisfy certain independence standards under the Companies Law. Following the Opt-Out, our compensation committee is comprised of Ms. Joy Marcus (chairperson), Mr. Dror Erez 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. 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 adopted a new Compensation Policy for Directors and Officers on February 6, 2020. Our compensation committee also oversees the administration of our Incentive Plan.

Investment Committee

Our investment committee is comprised of Mr. Eyal Kaplan (chairperson), Ms. Sarit Firon and Mr. Rami Schwartz. 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. Joy Marcus, 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 Ms. 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,		
	2019	2020	2021
Cost of sales	79	73	83
Research and development	117	135	115
Selling and marketing	136	146	154
General and administration	67	63	68
Total	399	417	420

As of December 31, 2021, 191 of our employees were located in Israel, 168 of our employees were located in the United States and 61 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 extension 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. Substantially all 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 as of the commencement date of his/her employment, 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.

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 5, 2022 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 44,292,780 ordinary shares outstanding as of March 5, 2022 (such amount excludes 115,339 Ordinary Shares held by the Company).

Name	Number of Ordinary Shares Beneficially Owned	Percentage of Ordinary Shares Outstanding
All directors and officers as a group (11 persons) ⁽¹⁾	1,233,406	2.78%

(1) Includes options to purchase 632,539 ordinary shares that are vested or will vest within 60 days of March 5, 2022.

Employee Benefit Plans

The Incentive Plan, our current equity incentive plan, was initially adopted in 2003, providing certain tax benefits in connection with stock-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 13 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, 2021, a total of 4,478,301 ordinary shares were subject to the Incentive Plan. As of March 5, 2022, options to purchase a total of 3,977,554 ordinary shares were outstanding under our Incentive Plan, of which options to purchase a total of 1,427,188 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 \$0.01 to \$7.97 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 [New Version], 1961 (the “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 section 3(i) of the Ordinance, which does not provide for similar tax benefits. In order 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 (the “Exercise Date”) (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 Company’s 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 tax rate of 25%, provided the trustee holds the securities for 24 months following the date of grant of the award. To the extent the conditions of Section 102 are not met, tax will be payable at the Exercise Date at the marginal income tax rate applicable to the employee or director (47% in 2020 and additional National Security contributions). In addition, in certain circumstances, an excess tax of 3% will be imposed as well. We are not entitled to deduct for Israeli tax purposes the expenses recorded with respect to grant of awards on the “Capital Gains Route.” However, in case the employee has an ordinary income component under section 102(b)(3) of the Ordinance, that component is deductible by the company for tax purposes. 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 nonqualified options that do not qualify as incentive stock options. Subject to the fulfillment of the applicable 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 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 2020.

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 5, 2022, 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 44,292,780 Ordinary Shares issued and outstanding as of March 5, 2022 (such amount excludes 115,339 Ordinary Shares held by the Company).

Except as indicated in the footnotes to this table, to our knowledge, the shareholder in the table has 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 shareholder does not have different voting rights than our other shareholders.

Name of Beneficial Owner	Shares Beneficially Owned	
	Number	Percentage
The Phoenix Holdings Ltd. ⁽¹⁾	2,443,477	5.52%

(1) Based solely upon information written statement provided to us by Phoenix Holdings Ltd., as of December 31, 2021. The shares are beneficially owned by various direct or indirect, majority or wholly-owned subsidiaries of the Phoenix Holdings Ltd. (the “Subsidiaries”). The Subsidiaries manage their own funds and/or the funds of others, including for holders of exchange-traded notes or various insurance policies, members of pension or provident funds, unit holders of mutual funds, and portfolio management clients. Each of the Subsidiaries operates under independent management and makes its own independent voting and investment decisions. The address of the Phoenix Holdings Ltd. is Derech Hashalom 53, Givataim, 53454, Israel.

To our knowledge, the 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 have been: (i) the decrease in the percentage of ownership held by Renaissance Technologies LLC and Renaissance Technologies Holdings Corporation below 5% during the year 2021; (ii) the decrease in the percentage of ownership held by Private Capital Management, LLC below the 5% during the year 2021 (iii) the decrease in the percentage of ownership held by Dror Erez below the 5% during the year 2019; (iv) the decrease in the percentage of ownership held by Ronen Shilo below the 5% during the year 2019; (v) the decrease in the percentage of ownership held by J.P. Morgan Investment Management Inc., Digital Growth Fund L.P. and Project Condor LLC below the 5% during the year 2019; (vi) the decrease in the percentage of ownership held by Benchmark Israel II, L.P. below the 5% during the year 2020; (viii) the increase in the percentage of ownership held by Private Capital Management, LLC above 5% in 2020; (ix) the increase in the percentage of ownership held by The Phoenix Holdings Ltd., and its various direct or indirect, majority or wholly-owned subsidiaries, above 5% during the year 2020; and (x) the decrease in the percentage of ownership held by EA2K Ltd. below the 5% during the year 2020.

To our knowledge, as of March 5, 2022, we had 5 shareholders of record of which 5 (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 0.1% 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 Exhibit 2.1 to this annual report on Form 20-F, which is incorporated by reference into this annual report on Form 20-F, 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.

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 10.B. "Related Party Transactions—Indemnification Agreements."

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 6.B. "Compensation."

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 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

A copy of our amended and restated articles of association is attached as Exhibit 1.1 to this annual report on Form 20-F. The information called for by this Item is set forth in Exhibit 2.1 to this annual report on Form 20-F and is incorporated by reference into this annual report on Form 20-F.

C. MATERIAL CONTRACTS

We have not entered into any material contract within the two years prior to the date of this Annual Report, other than contracts entered into in the ordinary course of business, or as otherwise described herein in Item 4.A “History and Development of the Company,” Item 4.B “Business Overview,” Item 5.B “Operating and Financial Review and Prospects—Liquidity and Capital Resources,” Item 6.C “Board Practices” and Item 7.B “Related Party Transactions.”

Bank Mizrahi Credit Facility

On May 10, 2017, ClientConnect, a former Israeli subsidiary of Perion, which merged into Perion on June 30, 2020, 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. See Note 9 of the Financial Statements for further information. As of March 8, 2021, this credit facility was repaid in full.

Bank Mizrahi 2020 Credit Line

On May 19, 2020, we entered into a short-term secured credit line in the amount of up to \$20 million with Bank Mizrahi, which was scheduled to mature on May 18, 2021. On August 11, 2020, we withdrawn an amount of \$12.5 million from this credit line. Such a withdrawal was a short-term revolving loan for a three-month period. As of December 21, 2020, this credit facility was repaid in full.

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 23% for 2018 and subsequent tax years. However, the effective tax rate payable by a company that derives income from a Preferred Enterprise (as further discussed below) may be considerably lower.

Under Israeli tax legislation, a corporation is considered as an “Israeli resident company” under the Ordinance if it meets one of the following: (i) it was incorporated in Israel; or (ii) the control and management of its business are exercised in Israel.

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 (the “2011 Amendment”). The reform introduced new benefits instead of the benefits granted in accordance with the provisions of the Investment Law in effect prior to the 2011 Amendment. However, companies entitled to benefits under the Investment Law in effect up to January 1, 2011, which were referred to as an Approved Enterprise and Benefited Enterprise, were entitled to choose to continue to enjoy such benefits, provided that certain conditions are met, or elect instead, irrevocably, to forego such benefits and elect the benefits of the 2011 Amendment. The 2017 Amendment introduces new benefits for Technological Enterprises, alongside the existing tax benefits. According to the 2011 Amendment, 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 the Company and certain of its Israeli subsidiaries, qualify as a “Preferred Technological Enterprise” in 2021 and therefore, the portion of the income derived from “Preferred Technology Income”, as defined in the Investment Law, which qualifies for the benefits, is subject to a lower tax rate of 12% according to Amendment 73 to the Law, as described below.

On December 31, 2019 the Israeli subsidiary – ClientConnect Ltd., was merged into the Company. In 2020 the Company elected to implement “Preferred Technological Enterprise” benefits.

Benefits granted to a Preferred Enterprise’s Preferred Income include reduced tax rates. In peripheral regions (Development Area A) the reduced tax rate was 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 dividend distribution from a Preferred Enterprise out of the “Preferred Income” would be subject to 20% withholding tax for Israeli-resident individuals (in the case of non-Israeli shareholders - subject to the receipt in advance of a valid certificate from the Israel Tax Authority (“ITA”) allowing for a reduced tax rate, 20% or such lower rate as may be provided under an applicable double tax treaty). Dividend distributions out of “Preferred Income” to an Israeli company, are not subject to withholding tax.

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. On June 30, 2021, certain grandfather rules in Amendment 73 pertaining the preferred enterprises have expired, most significantly the limitation of Preferred Income to exclude such which is generated by intangible assets not related to the manufacturing or such that would not have been recognized as Preferred Technological Income.

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

Amendment 73 provides 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 applies to "Preferred Technology Enterprise" that meet certain condition, including all of the following:

- A company's average R&D expenses in the three years prior to the current tax year must be greater than or equal to 7% of its total revenue or exceed NIS 75 million (approximately \$21 million) per year; and
- A company must also satisfy one of the following conditions: (1) at least 20% of the workforce (or at least 200 employees) are employed in R&D; (2) a venture capital investment of an amount approximately equivalent to at least NIS 8 million was previously made in the company; or (3) growth in sales or workforce by an average of 25% over the three years preceding the tax year.

A "Special Preferred Technology Enterprise" is an enterprise that meets conditions one and two above, and in addition is a part of a group of companies that have total annual consolidated revenue in excess of NIS 10 billion (approximately \$2.8 billion).

A "Preferred Technology Enterprise" satisfying the required conditions 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 area A. In addition, a Preferred Technology Enterprise 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.

A "Special Preferred Technology Enterprise" satisfying the required conditions, 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 IIA. 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 to Israeli shareholders 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% (in the case of non-Israeli shareholders - subject to the receipt in advance of a valid certificate from the ITA allowing for a reduced tax rate, 20% or such lower rate as may be provided in an applicable tax treaty). However, if such dividends are paid to an Israeli company, no tax is required to be withheld. If more than 90% of the Preferred Technology Enterprise or Special Preferred Technology Enterprise are held by foreign company shareholders and other conditions are met, such dividends, distributed to a foreign company, will be subject to a 4% withholding tax rate (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 we qualified as a "Preferred Technological Enterprise" in 2020 and 2021, that our Israeli subsidiary Vidazoo qualified as "Preferred Technological Enterprise" in 2021, and that our former Israeli subsidiary, ClientConnect, qualified as a "Preferred Technological Enterprise" in 2017, 2018 and 2019 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, is derived from an "Industrial Enterprise" owned by it and located in Israel or in the "Area", in accordance with the definition in 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, patents, and right to use patent or know how, which are used for the development or promotion of the Industrial Enterprise, 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
- Deduction of expenses related to a public offering 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 Ordinance and the regulations promulgated under it, an international transaction (where at least one party is a non-Israeli or the income from such transaction, in whole or in part, is taxable income abroad as well as in Israel) of which the parties are related (including relations between a person and their relative, and also control of one party to the transaction over the other, control of one person over the parties to the transaction, whether direct or indirect, alone or together with another), 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 rather than what would have been realized, if the price or the conditions had been set between parties that are not related (the "Market Terms"), then such transaction shall be reported in accordance with the Market Terms. 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

Capital Gains Taxes Applicable to Non-Israeli Resident Shareholders. The Israeli Income Tax Ordinance [New Version], 5721-1961, or the Tax Ordinance, generally imposes a capital gains tax on the disposition of capital assets by non-Israeli tax residents if those assets (i) are located in Israel, (ii) are shares or a right to shares in an Israeli resident corporation, or (iii) represent, directly or indirectly, rights to assets located in Israel, unless a specific exemption is available or unless a tax treaty between Israel and the shareholder's country of residence provides otherwise. The Tax Ordinance distinguishes between real capital gain and inflationary surplus. The inflationary surplus is a portion of the total capital gain equivalent to the increase of the relevant asset's tax basis attributable to an increase in the Israeli consumer price index or, in certain circumstances, a foreign currency exchange rate, between the date of purchase and the date of disposition. Inflationary surplus is not currently subject to tax in Israel. The real capital gain is the excess of the total capital gain over the inflationary surplus.

Generally, a non-Israeli resident (whether an individual or a corporation) who derives capital gains from the sale of shares in an Israeli resident company purchased upon or after the registration of the shares on the TASE or on a regulated market outside of Israel (such as Nasdaq) should be exempt from Israeli capital gains tax unless, among others, (i) the shares were held through a permanent establishment that the non-Israeli resident shareholder maintains in Israel, or (ii) the Israeli resident company is classified as a real estate investment trust or ceased to be a real estate investment trust (as defined in the Tax Ordinance). If not exempt, a non-Israeli resident shareholder would generally be subject to tax on capital gain at the ordinary corporate tax rate (23% in 2021), if generated by a company, or at the rate of 25%, if generated by an individual, or 30%, if generated by an individual who is a "substantial shareholder" (as defined under the Tax Ordinance), at the time of sale or at any time during the preceding 12-month period (or if the shareholder claims a deduction for interest and linkage differences expenses in connection with the purchase and holding of such shares). A "substantial shareholder" is generally a person who alone or together with such person's relative or another person who collaborates with such person on a permanent basis, holds, directly or indirectly, at least 10% of any of the "means of control" of the corporation. "Means of control" generally include, among others, the right to vote, receive profits, nominate a director or an executive officer, receive assets upon liquidation, or order someone who holds any of the aforesaid rights how to act, regardless of the source of such right. Individual and corporate shareholders dealing in securities in Israel are taxed at the tax rates applicable to business income (a corporate tax rate for a corporation (23% in 2021) and a marginal tax rate of up to 47% for an individual in 2021 (excluding excess tax as discussed below)) unless contrary provisions in a relevant tax treaty apply. Non-Israeli entities (including corporations) will not be entitled to the foregoing exemption if Israeli residents, whether directly or indirectly: (i) have a controlling interest of more than 25% in such non-Israeli entity or (ii) are the beneficiaries of, or are entitled to, 25% or more of the revenue or profits of such non-Israeli entity. Such exemption is not applicable, inter alia, to a person whose gains from selling or otherwise disposing of the shares are deemed to be business income.

Additionally, a sale of shares by a non-Israeli resident may be exempt from Israeli capital gains tax under the provisions of an applicable tax treaty between Israel and the shareholder's country of residence. For example, under the Convention Between the Government of the United States and the Government of the State of Israel with respect to Taxes of Income, as amended, or the United States-Israel Tax Treaty, the disposition of shares by a shareholder who (i) is a U.S. resident (for purposes of the United States-Israel Tax Treaty), (ii) holds the shares as a capital asset, and (iii) is entitled to claim the benefits afforded to such person by the United States-Israel Tax Treaty, is generally exempt from Israeli capital gains tax. Such exemption will not apply, inter alia, if (a) the capital gain arising from such sale, exchange or disposition is attributed to a permanent establishment that the shareholder maintains in Israel, (b) the shareholder holds, directly or indirectly, shares representing 10% or more of the voting capital of the company at any time in the 12-month period preceding such sale, exchange or disposition, subject to certain conditions, (c) such U.S. resident is an individual and was present in Israel for a period or periods aggregating to 183 days or more during the relevant taxable year, (d) the capital gains arising from such sale, exchange or disposition is attributed to real estate located in Israel, or (e) the capital gain arising from such sale, exchange or disposition is attributed to royalties. In each case, the sale, exchange or disposition of our ordinary shares would be subject to Israeli tax, to the extent applicable.

Regardless of whether non-Israeli shareholders may be liable for Israeli capital gains tax on the sale of our ordinary shares, the payment of the consideration may be subject to the withholding of Israeli tax at source. 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 Israel Tax Authority 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 Israel Tax Authority to confirm their status as non-Israeli tax residents, and, in the absence of such declarations or exemptions, may require the purchaser of the shares to withhold taxes at source.

In addition, with respect to mergers involving an exchange of shares, Israeli tax law allows for tax deferral in certain circumstances but makes the deferral contingent on the fulfillment of a number of conditions, including, in some cases, a holding period of two years from the date of the transaction during which sales and dispositions of shares of the participating companies are subject to certain restrictions. Moreover, with respect to certain share swap transactions in which the sellers receive shares in the acquiring entity that are publicly traded on a stock exchange, the tax deferral is limited in time, and when such time expires, the tax becomes payable even if no disposition of such shares has occurred. In order to benefit from the tax deferral, a pre-ruling from the Israel Tax Authority might be required.

Taxation of Non-Israeli Resident Shareholders on Receipt of Dividends. Non-Israeli residents (whether individuals or corporations) are generally subject to Israeli income tax on the receipt of dividends paid on our ordinary shares at the rate of 25%, unless relief is provided under the provisions of an applicable tax treaty between Israel and the shareholder's country of residence (provided that a certificate from the Israel Tax Authority allowing for a reduced withholding tax rate or a tax exemption is obtained in advance). With respect to a person who is a "substantial shareholder" (described above) at the time of receiving the dividend or on any time during the preceding 12 months, the applicable tax rate is 30%. Dividends paid on publicly traded shares, like our ordinary shares, to non-Israeli residents, are generally subject to Israeli withholding tax at a rate of 25%, so long as the shares are registered with a nominee company (whether or not the recipient is a substantial shareholder), unless a lower rate is provided under an applicable tax treaty (provided that a certificate from the Israel Tax Authority allowing for a reduced withholding tax rate is obtained in advance). However, a distribution of dividends to non-Israeli residents is generally subject to withholding tax at source at a rate of 15% if the dividend is distributed from income attributed to an "Approved Enterprise" or a "Benefited Enterprise" and 20% if the dividend is distributed from income attributed to a "Preferred Enterprise" (as such terms are defined in the Law for the Encouragement of Capital Investments, 5719-1959, or the Encouragement Law), subject to the receipt in advance of a valid certificate from the ITA allowing for a reduced tax rate, or such lower rate as may be provided under an applicable tax treaty. If such dividends are distributed by a "Preferred Technological Enterprise" or a "Special Preferred Technological Enterprise", paid out of "Preferred Technological Income" (as such terms are defined under the Encouragement Law), to a non-Israeli company that holds, alone or together with other foreign companies, 90% or more in the Israeli 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).

For example, under the United States-Israel Tax Treaty and subject to the eligibility to the benefits under such treaty, the maximum rate of tax withheld at source in Israel on dividends paid to a holder of our ordinary shares who is a U.S. resident (for purposes of the United States-Israel Tax Treaty) is 25%. However, for dividends not generated by an Approved Enterprise, Benefited Enterprise or Preferred Enterprises and paid to a U.S. corporation holding 10% or more of the outstanding voting capital throughout the tax year in which the dividend is distributed as well as during the previous tax year, the maximum rate of withholding tax is generally 12.5%, provided that not more than 25% of the gross income of the Israeli resident paying corporation for such preceding year consists of certain types of dividends and interest. Notwithstanding the foregoing, dividends distributed from income attributed to an Approved Enterprise, Benefited Enterprise or Preferred Enterprise are not entitled to such reduction under such tax treaty but are subject to withholding tax at the rate of 15% or 20% for such a United States corporate shareholder (subject to the receipt in advance of a valid certificate from the ITA allowing for a reduced tax rate), provided that the conditions related to the holding of 10% of our voting capital and to our gross income for the previous year (as set forth in the previous sentence) are met. The aforementioned rates under the United States-Israel Tax Treaty would not apply if the dividend income is derived through a permanent establishment of the U.S. resident in Israel.

If the dividend is attributable partly to income derived from an Approved Enterprise, Benefited Enterprise or 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. U.S. residents (for purposes of the United States-Israel Tax Treaty) who are subject to Israeli withholding tax on a dividend may be entitled to a credit or deduction for United States federal income tax purposes up to the amount of the taxes withheld, subject to detailed rules contained in U.S. tax law.

We cannot assure you that we will designate the profits that we may distribute in a way that will reduce shareholders' tax liability.

A non-Israeli resident who receives dividends from which tax was withheld is generally exempt from the obligation to file tax returns in Israel in respect of such income, provided, inter alia, that (i) such income was not derived from a business conducted in Israel by the taxpayer, (ii) the taxpayer has no other taxable sources of income in Israel with respect to which a tax return is required to be filed and (iii) the taxpayer is not obliged to pay excess tax (as further explained below).

Excess Tax. Individuals who are subject to tax in Israel (whether any such individual is an Israeli resident or non-Israeli resident) are also subject to an additional tax at a rate of 3% on annual income exceeding NIS 647,640 for 2021 (which amount is linked to the annual change in the Israeli consumer price index), including, but not limited to, dividends, interest and capital gain.

Estate and Gift Tax. Israeli tax law presently does not impose estate or gift taxes.

U.S. FEDERAL INCOME TAX CONSIDERATIONS

The following is a description of material U.S. federal income tax consequences to the U.S. Holders described below of owning and disposing of our ordinary shares, but this discussion does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a particular person's decision to own, or dispose of, our ordinary shares.

This discussion applies only to a U.S. Holder that holds the ordinary shares as capital assets for U.S. federal income tax purposes (generally, property held for investment). It does not describe all of the tax consequences that may be relevant in light of a U.S. Holder's particular circumstances, including the alternative minimum tax, the Medicare contribution tax on net investment income and tax consequences applicable to U.S. Holders subject to special rules, such as:

- certain financial institutions;
- dealers or traders in securities that use a mark-to-market method of tax accounting;
- persons holding ordinary shares as part of a straddle, integrated or similar transaction;
- persons whose functional currency for U.S. federal income tax purposes is not the U.S. dollar;
- entities classified as partnerships for U.S. federal income tax purposes and their partners;
- tax-exempt entities, "individual retirement accounts" or "Roth IRAs";
- persons who acquired our ordinary shares pursuant to the exercise of an employee stock option or otherwise as compensation;
- persons that own or are deemed to own 10% or more of our stock by voting power or value; or
- persons holding ordinary shares in connection with a trade or business outside the United States.

If a partnership (or other entity that is classified as a partnership for U.S. federal income tax purposes) owns ordinary shares, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. Partnerships owning ordinary shares and their partners should consult their tax advisers as to their particular U.S. federal income tax consequences of owning and disposing of ordinary shares.

This discussion is based on the Internal Revenue Code of 1986, as amended, or the Code, administrative pronouncements, judicial decisions, final, temporary and proposed Treasury regulations, and the income tax treaty between the United States and Israel, or the Treaty, all as of the date hereof, any of which is subject to change, possibly with retroactive effect.

As used herein, a "U.S. Holder" is a person that is eligible for the benefits of the Treaty and is, for U.S. federal income tax purposes, a beneficial owner of ordinary shares and:

- a citizen or individual resident of the United States;
- a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States, any state therein or the District of Columbia; or
- an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

Treasury regulations that apply to taxable years beginning on or after December 28, 2021 may in some circumstances prohibit a U.S. person from claiming a foreign tax credit with respect to certain non-U.S. taxes that are not creditable under applicable income tax treaties. Accordingly, U.S. investors that are not eligible for Treaty benefits should consult their tax advisers regarding the creditability or deductibility of any Israeli taxes imposed on them. This discussion does not apply to investors in this special situation.

This discussion does not address any U.S. federal taxes (such as estate or gift taxes) other than income taxes, nor does it address any state, local or non-U.S. tax considerations. U.S. Holders should consult their tax advisers concerning the U.S. federal, state, local and non-U.S. tax consequences of owning and disposing of our ordinary shares in their particular circumstances.

Taxation of Distributions

This discussion is subject to the discussion under “—Passive Foreign Investment Company Rules” below.

We currently do not intend to make distributions on the ordinary shares. Any distributions (other than certain pro rata distributions of ordinary shares) will be treated as dividends to the extent paid out of our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. Because we do not maintain calculations of our earnings and profits under U.S. federal income tax principles, it is expected that distributions generally will be reported to U.S. Holders as dividends. Dividends will not be eligible for the dividends-received deduction generally available to U.S. corporations under the Code. Subject to applicable limitations, dividends paid on our ordinary shares to certain non-corporate U.S. Holders may be taxable at a favorable rate, provided that we are not a passive foreign investment company, or PFIC, for our taxable year in which the dividend is paid or the preceding taxable year. Non-corporate U.S. Holders should consult their tax advisers regarding the availability of this favorable rate in their particular circumstances.

Dividends will generally be included in a U.S. Holder’s income on the date of receipt. If any dividend is paid in NIS, the amount of dividend income will be the U.S. dollar amount of the dividend calculated by reference to the exchange rate in effect on the date of receipt, regardless of whether the payment is in fact converted into U.S. dollars. If the dividend is converted into U.S. dollars on the date of receipt, a U.S. Holder should not be required to recognize foreign currency gain or loss in respect of the dividend income. A U.S. Holder may have foreign currency gain or loss if the dividend is converted into U.S. dollars after the date of receipt. Such gain or loss will generally be treated as U.S.-source ordinary income or loss.

Dividend income will include any amounts withheld in respect of Israeli taxes and will be treated as foreign-source income. Subject to applicable limitations, some of which vary depending upon the U.S. Holder’s circumstances, Israeli taxes withheld from dividends on our ordinary shares generally will be creditable against the U.S. Holder’s U.S. federal income tax liability. The rules governing foreign tax credits are complex and U.S. Holders should consult their tax advisers regarding the creditability of foreign taxes in their particular circumstances. In lieu of claiming a foreign tax credit, U.S. Holders may elect to deduct foreign taxes (including Israeli taxes) in computing their taxable income, subject to applicable limitations. An election to deduct creditable foreign taxes instead of claiming foreign tax credits applies to all such foreign taxes paid or accrued in the taxable year.

Sale or Other Taxable Disposition of Ordinary Shares

This discussion is subject to the discussion under “—Passive Foreign Investment Company Rules” below.

Gain or loss realized on the sale or other taxable disposition of our ordinary shares will be capital gain or loss and will be long-term capital gain or loss if the U.S. Holder has owned the ordinary shares for more than one year. The amount of the gain or loss will equal the difference between the U.S. Holder’s tax basis in the ordinary shares disposed of and the amount realized on the disposition, in each case as determined in U.S. dollars. This gain or loss will generally be U.S.-source gain or loss for foreign tax credit purposes. The deductibility of capital losses is subject to limitations. Israeli taxes on capital gains will generally not be eligible for foreign tax credits. U.S. Holders should consult their tax advisers with respect to the creditability or deductibility of Israeli taxes, if any, on disposition gains in their particular circumstances.

Passive Foreign Investment Company Rules

In general, a non-U.S. corporation is a PFIC for any taxable year in which (i) 75% or more of its gross income consists of passive income or (ii) 50% or more of the value of its assets (generally determined on an average quarterly basis) consists of assets that produce, or are held for the production of, passive income. For purposes of the above calculations, a non-U.S. corporation that owns (or is treated as owning for U.S. federal income tax purposes), directly or indirectly, at least 25% by value of the shares or equity interests of another corporation or partnership is treated as if it held its proportionate share of the assets of the other corporation or partnership and received directly its proportionate share of the income of the other corporation or partnership. Passive income generally includes dividends, interest, rents, royalties and certain gains. Cash is generally a passive asset for these purposes. Goodwill is generally characterized as a non-passive or passive asset based on the nature of the income produced in the activity to which the goodwill relates.

We believe that we were not a PFIC for our 2021 taxable year. However, there can be no assurance that we will not be a PFIC for the current or any future taxable year because our PFIC status is an annual determination that can be made only after the end of the relevant taxable year and will depend on the composition of our income and assets and the value of our assets from time to time (including the value of our goodwill, which may be determined, in large part, by reference to the market price of our ordinary shares, which has been, and may continue to be, volatile). Because the value of our goodwill may be determined by reference to our market capitalization from time to time, and because we hold and may continue to hold significant amounts of cash and cash equivalents, our risk of being or becoming a PFIC for any taxable year will increase if our market capitalization declines.

If we are a PFIC for any taxable year and any of our non-U.S. subsidiaries or other companies in which we own equity interests is also a PFIC (any such entity, a “Lower-tier PFIC”), a U.S. Holder will be deemed to own a proportionate amount (by value) of the shares of any Lower-tier PFIC and will be subject to U.S. federal income tax according to the rules described in the subsequent paragraph on (i) certain distributions by the Lower-tier PFIC and (ii) dispositions of shares of the Lower-tier PFIC, in each case as if the U.S. Holder held such shares directly, even though the U.S. Holder will not receive the proceeds of those distributions or dispositions.

In general, if we are a PFIC for any taxable year during which a U.S. Holder holds ordinary shares, gain recognized by such U.S. Holder on a sale or other disposition (including certain pledges) of its ordinary shares will be allocated ratably over the U.S. Holder’s holding period. The amounts allocated to the taxable year of the sale or disposition and to any year before we became a PFIC will be taxed as ordinary income. The amount allocated to each other taxable year will be subject to tax at the highest rate in effect for individuals or corporations, as appropriate, for that taxable year, and an interest charge will be imposed on the resulting tax liability for each such year. Furthermore, to the extent that distributions received by a U.S. Holder in any year on its ordinary shares exceed 125% of the average of the annual distributions on the ordinary shares received during the preceding three years or the U.S. Holder’s holding period, whichever is shorter, such distributions will be subject to taxation in the same manner. If we are a PFIC for any taxable year during which a U.S. Holder owns ordinary shares, we will generally continue to be treated as a PFIC with respect to the U.S. Holder for all succeeding years during which the U.S. Holder owns the ordinary shares, even if we cease to meet the threshold requirements for PFIC status. If we are a PFIC for any taxable year but cease to be a PFIC for subsequent years, U.S. Holders should consult their tax advisers regarding the advisability of making a “deemed sale” election that will allow them to eliminate the continuing PFIC status under certain circumstances.

Alternatively, if we are a PFIC for any taxable year and if our ordinary shares are “regularly traded” on a “qualified exchange,” a U.S. Holder can make a mark-to-market election that will result in tax treatment different from the general tax treatment for PFICs described above. The ordinary shares will be treated as “regularly traded” for any calendar year in which more than a de minimis quantity of the ordinary shares are traded on a qualified exchange on at least 15 days during each calendar quarter. Nasdaq, where the ordinary shares are listed, is a qualified exchange for this purpose. If a U.S. Holder of ordinary shares makes a timely mark-to-market election, the U.S. Holder generally will recognize as ordinary income any excess of the fair market value of the ordinary shares at the end of each taxable year over their adjusted tax basis, and will recognize an ordinary loss in respect of any excess of the adjusted tax basis of the ordinary shares over their fair market value at the end of the taxable year (but only to the extent of the net amount of income previously included as a result of the mark-to-market election). If a U.S. Holder makes the election, the U.S. Holder’s tax basis in the ordinary shares will be adjusted to reflect the income or loss amounts recognized. Any gain recognized on the sale or other disposition of ordinary shares in a year in which we are a PFIC will be treated as ordinary income and any loss will be treated as an ordinary loss (but only to the extent of the net amount of income previously included as a result of the mark-to-market election, with any excess treated as a capital loss). If a U.S. Holder of ordinary shares makes a timely mark-to-market election, distributions paid on ordinary shares will be treated as discussed under “—Taxation of Distributions” above. U.S. Holders should consult their tax advisers regarding the availability and advisability of making a mark-to-market election in their particular circumstances. In particular, U.S. Holders should consider carefully the impact of a mark-to-market election with respect to their ordinary shares given that we may have Lower-tier PFICs and that there is no provision in the Code, Treasury regulations or other official guidance that would permit them to make a mark-to-market election with respect to any Lower-tier PFIC the shares of which are not “regularly traded” as described above.

We do not intend to provide information necessary for U.S. Holders to make “qualified electing fund” elections which, if available, would result in tax treatment different from the general tax treatment for PFICs described above.

If we are a PFIC for any taxable year during which a U.S. Holder owns any ordinary shares, the U.S. Holder will generally be required to file annual reports with the Internal Revenue Service. U.S. Holders should consult their tax advisers regarding the determination of whether we are a PFIC for any taxable year and the potential application of the PFIC rules to their ownership of our ordinary shares.

Information Reporting and Backup Withholding

Payments of dividends and sales proceeds that are made within the United States or through certain U.S.-related intermediaries may be subject to information reporting and backup withholding, unless (i) the U.S. Holder is a corporation or other "exempt recipient" and (ii) in the case of backup withholding, the U.S. Holder provides a correct taxpayer identification number and certifies that it is not subject to backup withholding. Backup withholding is not an additional tax. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder's U.S. federal income tax liability and may entitle it to a refund, provided that the required information is timely furnished to the Internal Revenue Service.

Certain U.S. Holders who are individuals (or certain specified entities) may be required to report information relating to their ownership of ordinary shares or non-U.S. accounts through which the ordinary shares are held. U.S. Holders should consult their tax advisers regarding their reporting obligations with respect to our ordinary shares.

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 on Form 20-F 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 revenue 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 \$1.0 million net losses in 2019, \$1.3 million net losses in 2020 and \$0.6 million net losses in 2021. These losses are included in financial expenses, net, as presented in our statements of income.

As of December 31, 2021, 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	435,033	6,590	4,548	446,171
Long-term assets	1,239	3,088	980	5,307
Current liabilities	(174,474)	(14,823)	(558)	(189,855)
Long-term liabilities	(46,124)	(6,188)	(253)	(52,565)
Total	215,674	(11,333)	4,717	209,058

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 \$0.4 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 0.4%. 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,		
	2019	2020	2021
Average rate for period	3.564	3.437	3.231
Rate at year-end	3.456	3.215	3.110

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 chief executive officer and chief financial officer, after evaluating the effectiveness of our disclosure controls and procedures as of December 31, 2021, which did not include the internal controls of the business of Vidazoo, our recent acquisition in 2021, 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, 2021. 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, 2021.

(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-6.

(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 16. RESERVED

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 2021.

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):

	2020	2021
Audit Fees	\$ 500	\$ 568
Tax Fees	236	181
Audit Related fees	86	394
Total	\$ 822	\$ 1,143

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.

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 additional efforts required in connection with mergers and acquisitions and assistance with respect to requests for rulings from tax authorities.

Audit-related fees principally include assistance with audit services and consultations, mainly related to follow-on public offerings, mergers and acquisitions.

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 2020 and 2021 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 Exhibit 2.1 to this annual report on Form 20-F, which is incorporated by reference into this annual report on Form 20-F, for the definition and procedures for the approval of related party transactions.

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

ITEM 16I. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTION

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 on Form 20-F:

PERION NETWORK LTD. AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2021

IN U.S. DOLLARS

INDEX

	<u>Page</u>
<u>Reports of Independent Registered Public Accounting Firm (PCAOB ID No. 1281)</u>	F-2
<u>Consolidated Balance Sheets as of December 31, 2020 and 2021</u>	F-7
<u>Consolidated Statements of Income for the Years Ended December 31, 2019, 2020 and 2021</u>	F-8
<u>Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2019, 2020 and 2021</u>	F-9
<u>Statements of Changes in Shareholders' Equity for the Years Ended December 31, 2019, 2020 and 2021</u>	F-10
<u>Consolidated Statements of Cash Flows for the Years Ended December 31, 2019, 2020 and 2021</u>	F-11
<u>Notes to the Consolidated Financial Statements</u>	F-13

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the 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, 2021 and 2020, 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, 2021, 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, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021, 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, 2021, 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 16, 2022, 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.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current-period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinion on the critical audit matters or on the accounts or disclosures to which they relate.

Revenue Recognition Gross versus Net presentation

Description of the Matter

As described in Note 2 to the consolidated financial statements, the Company's revenues are comprised primarily of Search Advertising Revenues and Display Advertising Revenues. To determine whether Search Advertising and Display Advertising revenues should be presented on a gross or net basis, the Company considers whether it controls the promised good or service before transferring that good or service to the customer.

Auditing the Company's gross or net basis evaluation was complex and required a high degree of auditor judgment due to the significant judgment and subjectivity used by the Company in determining whether revenue should be presented on a gross or net basis. The significant judgment was primarily due to the evaluation, for each contract, of whether the Company is the primary obligor in the arrangement.

How We Addressed the Matter in Our Audit

We obtained an understanding, evaluated the design and tested the operating effectiveness of internal controls over the Company's revenue recognition process, including controls over the review of contracts and assessment of principal versus agent, and controls over the completeness and accuracy of data.

Our substantive audit procedures included, among others, reviewing, on a sample basis, the terms of contracts with publishers, evaluating management's assessment on the principal versus agent analysis, discussing the terms of contracts with legal and finance personnel responsible for managing the contractual arrangements and evaluating the related disclosures in the consolidated financial statements.

Acquisition accounting for Vidazoo Ltd (Vidazoo) business combination

Description of the Matter

As described in Note 4.c to the consolidated financial statements, on October 04, 2021, the Company acquired 100% of the shares of Vidazoo Ltd ("the Vidazoo Acquisition") for a total consideration of \$77.7 million, of which \$35 million was paid in cash upon the completion of the transaction and \$36.6 million as earn-out tied to financial targets over a two-year period. The Vidazoo Acquisition was accounted for as a business combination in accordance with ASC 805 "Business Combinations". Accordingly, the purchase price was allocated to the assets acquired and liabilities assumed based on their respective fair values, including total identified intangible assets of \$39.2 million, which consist primarily of \$31 million of technology intangible asset.

Auditing the Company's accounting for the Vidazoo acquisition was complex and involved subjective auditor judgment in applying procedures relating to the fair value measurement of the technology intangible asset. The Company used the discounted cash flow method under the income approach ("the valuation model") to measure the fair value of the technology intangible asset. The significant assumptions used to estimate the fair value of the technology intangible asset included the discount rate applied and certain assumptions that form the basis of the forecasted results, such as revenue growth rates and profitability margins. These significant assumptions are forward-looking and could be affected by future economic and market conditions.

How We Addressed the Matter in Our Audit

We obtained an understanding, evaluated the design and tested the operating effectiveness of internal controls over the Company's accounting for acquisitions process, such as controls over the measurement of the technology intangible asset, including the valuation model and underlying assumptions used to develop such estimates.

We performed substantive audit procedures that included, among others, evaluating the completeness and accuracy of the underlying data and the reasonableness of management's significant assumptions and estimates. These procedures included comparing the significant assumptions to current industry, market and economic trends, historical results of the acquired business and to other relevant third-party industry outlooks. We involved our valuation specialists to assist us in evaluating the appropriateness of the Company's valuation model as well as the significant assumptions used to estimate the fair value of the technology intangible asset such as the weighted average cost of capital calculation. Our audit procedures included comparing the Company's discount rate to a discount rate range that was independently developed using publicly available market data for comparable peers. We also evaluated the appropriateness of the related disclosures included in Note 4.c to the consolidated financial statements in relation to the Vidazoo Acquisition.

/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 16, 2022

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 its subsidiaries' ("the Company") internal control over financial reporting as of December 31, 2021, 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, 2021, based on the COSO criteria.

As indicated in the accompanying Management's Report on Internal Control Over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of the business of Vidazoo Ltd. ("Vidazoo") that was acquired during 2021 and included in the 2021 consolidated financial statements of the Company and constitute 4% of total net assets as of December 31, 2021 and 6% of revenues, for the year then ended. Our audit of internal control over financial reporting of the Company also did not include an evaluation of the internal control over financial reporting of the business of Vidazoo.

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, 2021 and 2020, 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, 2021, and the related notes, and our report dated March 16, 2022 expressed an unqualified opinion thereon.

Basis for Opinion

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

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

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

Definition and Limitations of Internal Control Over Financial Reporting

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

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 16, 2022

CONSOLIDATED BALANCE SHEETS

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

	December 31,	
	2021	2020
Assets		
Current Assets:		
Cash and cash equivalents	\$ 104,446	\$ 47,656
Restricted cash	1,089	1,222
Short-term bank deposits	217,200	12,700
Accounts receivable (net of allowance of \$891 and \$694 at December 31, 2021 and 2020, respectively)	115,361	81,221
Prepaid expenses and other current assets	8,075	4,560
Total Current Assets	446,171	147,359
Property and equipment, net	4,211	6,770
Operating lease right-of-use assets	11,578	20,266
Intangible assets, net	56,700	24,376
Goodwill	189,265	152,303
Deferred taxes	5,228	7,111
Other assets	79	496
Total Assets	\$ 713,232	\$ 358,681
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable	\$ 107,730	\$ 72,498
Accrued expenses and other liabilities	40,331	21,188
Short-term operating lease liability	3,615	4,514
Short-term loans and current maturities of long-term loans	-	8,333
Deferred revenues	3,852	5,711
Short-term payment obligation related to acquisitions	38,179	7,869
Total Current Liabilities	193,707	120,113
Long-Term Liabilities:		
Long-term operating lease liability	9,774	17,698
Payment obligation related to acquisition	33,250	30,035
Other long-term liabilities	9,541	6,713
Total Liabilities	246,272	174,559
Commitments and Contingencies		
Shareholders' Equity:		
Ordinary shares of ILS 0.03 par value - Authorized: 60,000,000 and 43,333,333 shares at December 31, 2021 and 2020, respectively; Issued: 43,812,062 and 27,467,313 shares at December 31, 2021 and 2020, respectively; Outstanding: 43,696,723 and 27,351,974 shares at December 31, 2021 and 2020, respectively	375	224
Additional paid-in capital	496,154	251,933
Treasury shares at cost (115,339 shares at December 31, 2021 and 2020)	(1,002)	(1,002)
Accumulated other comprehensive income	(128)	112
Accumulated deficit	(28,439)	(67,145)
Total Shareholders' Equity	466,960	184,122
Total Liabilities and Shareholders' Equity	\$ 713,232	\$ 358,681

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,		
	2021	2020	2019
Revenues:			
Display Advertising	\$ 265,323	\$ 148,698	\$ 87,863
Search Advertising	213,175	179,365	173,587
Total Revenues	478,498	328,063	261,450
Costs and Expenses:			
Cost of revenues	25,197	22,477	25,520
Traffic acquisition costs and media buy	288,018	197,626	135,891
Research and development	35,348	30,880	22,585
Selling and marketing	53,209	39,085	34,736
General and administrative	20,933	15,819	14,999
Depreciation and amortization	9,897	9,923	9,711
Total Costs and Expenses	432,602	315,810	243,442
Income from Operations	45,896	12,253	18,008
Financial expenses, net	581	2,638	3,470
Income before Taxes on Income	45,315	9,615	14,538
Taxes on income (benefit)	6,609	(610)	1,645
Net Income	\$ 38,706	\$ 10,225	\$ 12,893
Net Earnings per Share - Basic:	\$ 1.13	\$ 0.38	\$ 0.50
Net Earnings per Share - Diluted:	\$ 1.02	\$ 0.36	\$ 0.49
Weighted average number of shares – Basic:	34,397,134	26,687,145	25,965,357
Weighted average number of shares – Diluted:	37,829,725	28,797,747	26,357,585

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,		
	2021	2020	2019
Net income	\$ 38,706	\$ 10,225	\$ 12,893
Other comprehensive income (loss):			
Change in foreign currency translation adjustment	(315)	49	(185)
Cash Flow Hedge:			
Unrealized gain (loss) from cash flow hedges	242	697	445
Less: reclassification adjustment for net gain (loss) included in net income (loss)	(167)	(764)	(272)
Net change	75	(67)	173
Other comprehensive loss	(240)	(18)	(12)
Comprehensive income	\$ 38,466	\$ 10,207	\$ 12,881

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

CONSOLIDATED 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, 2018	25,850,188	211	239,693	142	(90,263)	(1,002)	148,781
Stock-based compensation	-	-	2,293	-	-	-	2,293
Proceeds from exercise of stock-based compensation	392,271	2	1,225	-	-	-	1,227
Other comprehensive loss	-	-	-	(12)	-	-	(12)
Net income	-	-	-	-	12,893	-	12,893
Balance as of December 31, 2019	26,242,459	213	243,211	130	(77,370)	(1,002)	165,182
Stock-based compensation	-	-	4,447	-	-	-	4,447
Proceeds from exercise of stock-based compensation	1,109,515	11	4,275	-	-	-	4,286
Other comprehensive loss	-	-	-	(18)	-	-	(18)
Net income	-	-	-	-	10,225	-	10,225
Balance as of December 31, 2020	27,351,974	224	251,933	112	(67,145)	(1,002)	184,122
Issuance of shares - Offering	14,110,592	133	230,356	-	-	-	230,489
Stock-based compensation	-	-	6,985	-	-	-	6,985
Proceeds from exercise of stock-based compensation	2,234,157	18	6,880	-	-	-	6,898
Other comprehensive loss	-	-	-	(240)	-	-	(240)
Net income	-	-	-	-	38,706	-	38,706
Balance as of December 31, 2021	43,696,723	375	496,154	(128)	(28,439)	(1,002)	466,960

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,		
	2021	2020	2019
Operating activities:			
Net income	\$ 38,706	\$ 10,225	\$ 12,893
Adjustments required to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	9,897	9,923	9,711
Stock-based compensation expense	6,985	4,447	2,293
Foreign currency translation	(223)	19	(86)
Accrued interest, net	(300)	(125)	(204)
Deferred taxes, net	(2,755)	(3,093)	(1,756)
Accrued severance pay, net	663	(23)	96
Change in payment obligation related to acquisitions	350	4,646	1,025
Fair value revaluation - convertible debt	-	-	600
Loss from sale of property and equipment	121	10	-
Net changes in operating assets and liabilities:			
Accounts receivable, net	(34,239)	(32,049)	6,416
Prepaid expenses and other current assets	(2,781)	(1,185)	646
Operating lease right-of-use assets	8,510	2,595	3,119
Operating lease liabilities	(8,643)	(2,255)	(1,518)
Accounts payable	35,222	24,742	9,459
Accrued expenses and other liabilities	21,446	2,776	1,653
Deferred revenues	(1,853)	1,506	394
Net cash provided by operating activities	\$ 71,106	\$ 22,159	\$ 44,741
Investing activities:			
Purchases of property and equipment	\$ (627)	\$ (459)	\$ (1,209)
Proceeds from sale of property and equipment	95	5	492
Short-term deposits, net	(204,500)	10,534	(19,234)
Cash paid in connection with acquisitions, net of cash acquired	(38,438)	(19,000)	(1,200)
Net cash used in investing activities	\$ (243,470)	\$ (8,920)	\$ (21,151)
Financing activities:			
Issuance of shares in private placement, net	230,489	-	-
Proceeds from exercise of stock-based compensation	\$ 6,898	\$ 4,286	\$ 1,227
Payments made in connection with acquisition	-	-	(1,813)
Repayment of convertible debt	-	-	(15,850)
Repayment of long-term loans	(8,333)	(8,333)	(8,332)
Net cash provided by (used in) financing activities	\$ 229,054	\$ (4,047)	\$ (24,768)
Effect of exchange rate changes on cash and cash equivalents	(33)	81	(20)
Net increase (decrease) in cash and cash equivalents and restricted cash	\$ 56,657	\$ 9,273	\$ (1,198)
Cash and cash equivalents and restricted cash at beginning of year	48,878	39,605	40,803
Cash and cash equivalents and restricted cash at end of year	\$ 105,535	\$ 48,878	\$ 39,605

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		
	2021	2020	2019
Reconciliation of cash, cash equivalents, and restricted cash to the consolidated balance sheet			
Cash and cash equivalents	\$ 104,446	\$ 47,656	\$ 38,389
Restricted cash	1,089	1,222	1,216
Total cash, cash equivalents, and restricted cash	\$ 105,535	\$ 48,878	\$ 39,605
Supplemental Disclosure of Cash Flow Activities:			
Cash paid during the year for:			
Income taxes	\$ 4,365	\$ 3,180	\$ 4,007
Interest	\$ 203	\$ 1,097	\$ 2,320
Non-cash investing and financing activities:			
Creation of new lease right-of-use assets arising from lease liability	\$ -	\$ 1,671	\$ 25,537
Purchase of property and equipment on credit	\$ 45	\$ 3	\$ 15

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1: GENERAL

Perion Network Ltd. ("Perion") and its wholly-owned subsidiaries (collectively referred to as the "Company"), is a global technology company that delivers strategic business solutions that enable brands and advertisers to efficiently "Capture and Convince" users across multiple platforms and channels, including interactive connected television – or iCTV. Perion achieves this through its Synchronized Digital Branding capabilities, which are focused on high impact creative; content monetization; its branded search network, in partnership with Microsoft Bing; and social media management that orchestrates and optimizes paid advertising.

On January 14, 2020, the Company completed the acquisition of Content IQ LLC and on July 22, 2020, the assets acquisition of Pub Ocean Limited was consummated.

On October 4, 2021, we also completed the acquisition of Vidazoo Ltd. (for additional information on these acquisitions, see Note 4)

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 credit losses, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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, 2021 and 2020 are denominated primarily in USD and bear interest at an average annual rate of 0.79% and 0.67%, respectively.

Restricted cash

Restricted cash is comprised primarily of security deposits that are held to secure the Company's lease obligations. As of December 31, 2021 and 2020, restricted cash balances were \$1,089 and \$1,222 respectively.

Accounts receivable and allowance for credit losses

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

As of December 31, 2021 and 2020, the Company has recorded an allowance for doubtful debts in the amounts of \$891 and \$694, respectively.

Total expenses for doubtful debts during 2021, 2020 and 2019 amounted to \$82, \$323 and \$78, respectively.

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.

Leases

The Company determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use ("ROU") assets, other current liabilities and operating lease liabilities in the Company's consolidated balance sheets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

ROU assets represent the right to use an underlying asset for the lease term and lease liabilities obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term.

The Company uses incremental borrowing rates based on the estimated rate of interest for collateralized borrowing over a similar term of the lease payments at commencement date. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Lease expenses for lease payments are recognized on a straight-line basis over the lease term.

Impairment of long-lived assets, Right-of-use assets and intangible assets subject to amortization

The Company's long-lived assets (assets group) to be held or used, including property and equipment, right of use assets 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.

Goodwill and intangible assets

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.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Revenue recognition

The Company applies the provisions of Accounting Standards Codification 606, Revenue from Contracts with Customers ("ASC 606" or "Topic 606").

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:

Display Advertising Revenues ("Advertising") - the Company generates advertising revenues from delivering high impact ad formats through different channels – display, social and video/CTV, creatively designed to capture consumer attention and drive engagement, across a hand-picked portfolio of websites and mobile applications. In addition, the Company also generates advertising revenues from content optimization solutions and services, which are being recognizes once the advertisement partners serve their advertisement across owned and operated properties as well as those of our publishers.

Search Advertising Revenues ("Search Monetization") - 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 on a revenue share basis relative to the revenue generated by the search partners.

For more disaggregated information of revenues refer to Note 17.

The Company's 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 have not yet been recognized. As of December 31, 2021, the aggregate amount of the RPOs was \$3,852. The Company anticipates that it will satisfy all of its remaining performance obligation associated with the deferred revenue within the prospective fiscal year.

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 2021 from amounts included within the Deferred revenues balance at the beginning of the period amounted to \$5,711.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Cost of revenues

Cost of revenues consists primarily of expenses associated with the operation of the Company's server hosting, data verification and targeting, campaign creative, labor, as well as content acquisition costs and customer support.

Traffic acquisition costs and media buy

Traffic acquisition costs and media buy 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. In addition, media buy costs consist of the costs of advertising inventory incurred to deliver ads. Traffic acquisition costs are primarily based on revenue share agreements with our traffic sources and the media buy cost are primarily based on CPC and CPM, which 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 \$1,392 is included in property and equipment in the consolidated balance sheet as of December 31, 2020. No capitalized software development costs, net of accumulated amortization, is included in the consolidated balance sheet as of December 31, 2021 (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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Severance pay

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.

Severance expenses for the years ended December 31, 2021, 2020 and 2019 amounted to \$1,802, \$1,755, and \$1,270, 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 up to 100% of each participant's contributions, up to 4% 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, 2021, 2020 and 2019 were \$683, \$624, and \$691, 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 1,035,307, 3,178,024, and 4,087,559 for the years ended December 31, 2021, 2020 and 2019, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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. 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 credit losses.

The allowance against gross trade receivables reflects the current expected credit loss inherent in the receivables portfolio determined based on the Company's methodology. The Company's methodology is based on historical collection experience, customer creditworthiness, current and future economic condition, and market condition. Additionally, specific allowance amounts are established to record the appropriate provision for customers that have a higher probability of default. Trade receivables are written off after all reasonable means to collect the full amount have been exhausted.

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, contractors 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 reassesses 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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		
	2021	2020	2019
Risk-free interest rate	0.94% - 1.52%	0.29% - 1.60%	0.70% - 2.90%
Expected volatility	59% - 60%	53% - 59%	43% - 55%
Early exercise factor	130% - 200%	110% - 200%	110% - 230%
Forfeiture rate post vesting	1% - 27%	0% - 34%	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.

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, forward 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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Additionally, in order to mitigate the potential adverse impact of the fluctuations in the ILS-USD exchange rate in connection with the convertible debt, 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 was 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 resulted from the change of the SWAP's fair value were 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. On June 6, 2019, the SWAP agreements were terminated concurrently with the early redemption of the convertible bond.

The notional value of the Company's derivative designed as hedging instruments as of December 31, 2021 and 2020, amounted to \$5,071 and \$0, respectively.

The notional value of the Company's derivative not designed as hedging instruments as of December 31, 2021 and 2020, amounted to \$2,876 and \$0, 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, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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.

Recent Adopted Accounting Pronouncements:

In December 2019, the FASB issued Accounting Standards Update No. 2019-12, Income Taxes (Topic 740): "Simplifying the Accounting for Income Taxes" (ASU 2019-12), which simplifies the accounting for income taxes. This guidance will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020, and early adoption is permitted. The adoption of this standard did not have a material impact on the Company's condensed consolidated financial statements.

Recent Accounting Pronouncements not yet adopted

In October 2021 the FASB ASU 2021-08, Topic 805 "Business Combinations" – Accounting for Contract Assets and Contract Liabilities from Contracts with Customers. The amendments in this update require that an entity (acquirer) recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with Topic 606. At the acquisition date, an acquirer should account for the related revenue contracts in accordance with Topic 606 as if it had originated the contracts. To achieve this, an acquirer may assess how the acquiree applied Topic 606 to determine what to record for the acquired revenue contracts. The amendments in this update are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years, and early adoption is permitted. The Company is currently assessing the impact of the new guidance on its consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 3: FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table present assets and liabilities measured at fair value on a recurring basis as of December 31, 2021:

	Fair value measurements using input type			
	Level 1	Level 2	Level 3	Total
Assets:				
Derivative assets	\$ -	\$ 75	\$ -	\$ 75
Total financial assets	\$ -	\$ 75	\$ -	\$ 75
Liabilities:				
Contingent consideration in connection to the acquisitions	-	-	63,550	63,550
Total financial liabilities	\$ -	\$ -	\$ 63,550	\$ 63,550

The following table present assets measured at fair value on a recurring basis as of December 31, 2020:

	Fair value measurements using input type			
	Level 1	Level 2	Level 3	Total
Liabilities:				
Contingent consideration in connection to the acquisitions	\$ -	\$ -	\$ 31,859	\$ 31,859
Total financial liabilities	\$ -	\$ -	\$ 31,859	\$ 31,859

NOTE 4: ACQUISITIONS

a. Content IQ LLC

On January 14, 2020, the Company consummated the acquisition of Content IQ LLC ("Content IQ"), a privately held company founded in 2014, based in New York City. Content IQ has created data algorithm and analytics tools that deconstruct content, revenue and distribution to solve current major digital publishing challenges.

The total consideration for the acquisition was \$37,838, comprised of \$15,000 paid in cash at closing and a contingent consideration (with a maximum amount of up to \$47,050), tied to revenues and EBITDA-based metrics over a period of two years, estimated at fair value of \$22,838 on the acquisition date. As of December 31, 2021, the contingent consideration is estimated at fair value of \$17,844. The change in fair value of the contingent consideration was recorded to general and administrative expenses. In addition, the acquisition includes a retention-based component of up to \$11,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

b. Pub Ocean

On July 22, 2020, the Company acquired the net assets of Pub Ocean Limited, also known as "Pub Ocean" (the "Pub Ocean Acquisition"), a rapidly growing digital publisher-focused technology company with scalable content distribution and real-time revenue analytics technology.

The total consideration for the acquisition was \$13,399, comprised of \$4,000 paid in cash at closing and a contingent consideration (with a maximum amount of up to \$17,000), tied to financial targets over a two-year period, estimated at fair value of \$9,399 on the acquisition date. As of December 31, 2021, the contingent consideration is estimated at fair value of \$8,963. The change in fair value of the contingent consideration was recorded to general and administrative expenses. In addition, the acquisition includes a retention-based component of up to \$1,000.

c. Vidazoo

On October 4, 2021, the Company consummated the acquisition of Vidazoo Ltd., also known as "Vidazoo" (the "Vidazoo Acquisition"), a leading video technology company that enables both advertisers and publishers to deliver high impact content and advertising to consumers.

The total consideration for the acquisition was \$77,748, comprised of \$35,000 paid in cash at closing, contingent consideration (with a maximum amount of up to \$58,545), tied to financial targets over a period of 2.25 years, estimated at fair value of \$36,613 on the acquisition date, and a net working capital in the amount of \$6,135 which will be set-off against collection. As of December 31, 2021, the contingent consideration is estimated at fair value of \$36,743.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the acquisition date:

	<u>Fair value</u>
Net Assets	6,291
Technology	31,005
Customer Relationship	8,194
Deferred Taxes	(4,704)
Goodwill	36,962
Net assets acquired	\$ 77,748

Technology includes publishing orchestration system with proprietary data algorithms and analytic tools which deconstruct content, revenue and distribution to solve digital publishing challenges. The technology is amortized over the estimated useful life of 7 years using the straight-line method.

Customer relationships is derived from customer contracts and related customer relationships with existing customers. Customer relationships is amortized based on the accelerated method over the estimated useful life of 8 years.

Pro forma results of operations related to this acquisition have not been presented because they are not material to the Company's consolidated statements of operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 5: PROPERTY AND EQUIPMENT, NET

	December 31,	
	2021	2020
Cost:		
Computers and peripheral equipment	\$ 7,219	\$ 6,776
Office furniture and equipment	2,686	2,682
Leasehold improvements	8,392	8,658
Capitalized software	12,473	12,473
Total cost	30,770	30,589
Less: accumulated depreciation and amortization	(26,559)	(23,819)
Property and equipment, net	\$ 4,211	\$ 6,770

Depreciation expenses totaled to \$3,022, \$4,662, and \$5,455, for the years ended December 31, 2021, 2020 and 2019, respectively.

Depreciation expense for the related capitalized internally developed software in the consolidated statements of income amounted to \$1,392, \$3,056, and \$3,607 during 2021, 2020 and 2019, respectively.

NOTE 6: GOODWILL AND OTHER INTANGIBLE ASSETS, NET

a. Goodwill

The changes in the net carrying amount of goodwill in 2021 and 2020 were as follows:

Balance as of January 1, 2020	\$ 125,809
Acquisition of Content IQ	\$ 23,361
Acquisition of Pub Ocean	\$ 3,133
Balance as of December 31, 2020	\$ 152,303
Acquisition of Vidazoo	\$ 36,962
Balance as of December 31, 2021	\$ 189,265

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, 2021, the Company has two reporting units – Display advertising and Search advertising. 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.

No impairment was incurred for the years ended December 31, 2021, 2020 and 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

b. Intangible assets, net

The following is a summary of intangible assets as of December 31, 2021:

	December 31, 2020	Additions	Amortization	December 31, 2021
Acquired technology	\$ 53,412	\$ 31,005	\$ -	\$ 84,417
Accumulated amortization	(25,548)	-	(5,589)	(31,137)
Impairment	(8,749)	-	-	(8,749)
Acquired technology, net	19,115	31,005	(5,589)	44,531
Customer relationships	36,860	8,194	-	45,054
Accumulated amortization	(22,161)	-	(1,057)	(23,218)
Impairment	(10,426)	-	-	(10,426)
Customer relationships, net	4,273	8,194	(1,057)	11,410
Tradename and other	18,503	-	-	18,503
Accumulated amortization	(12,405)	-	(229)	(12,634)
Impairment	(5,110)	-	-	(5,110)
Tradename and other, net	988	-	(229)	759
Intangible assets, net	\$ 24,376	\$ 39,199	\$ (6,875)	\$ 56,700

The following is a summary of intangible assets as of December 31, 2020:

	December 31, 2019	Additions	Amortization	OCI	December 31, 2020
Acquired technology	\$ 31,159	\$ 22,101	\$ -	\$ 152	\$ 53,412
Accumulated amortization	(21,810)	-	(3,579)	(159)	(25,548)
Impairment	(8,749)	-	-	-	(8,749)
Acquired technology, net	600	22,101	(3,579)	(7)	19,115
Customer relationships	31,911	4,901	-	48	36,860
Accumulated amortization	(20,727)	-	(1,465)	31	(22,161)
Impairment	(10,426)	-	-	-	(10,426)
Customer relationships, net	758	4,901	(1,465)	79	4,273
Tradename and other	18,284	-	-	219	18,503
Accumulated amortization	(11,897)	-	(217)	(291)	(12,405)
Impairment	(5,110)	-	-	-	(5,110)
Tradename and other, net	1,277	-	(217)	(72)	988
Intangible assets, net	\$ 2,635	\$ 27,002	\$ (5,261)	\$ -	\$ 24,376

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

The estimated useful life of the intangible assets are as follows:

	<u>Estimated useful life</u>
Acquired technology	4-7 years
Customer relationships	5-8 years
Tradenname and other	4-11 years

Amortization of intangible assets, net, in each of the succeeding five years and thereafter is estimated as follows:

2022	\$	11,275
2023		11,150
2024		10,963
2025		7,137
2026		5,735
Thereafter		10,440
	<u>\$</u>	<u>56,700</u>

NOTE 7: ACCRUED EXPENSES AND OTHER LIABILITIES

	<u>December 31,</u>	
	<u>2021</u>	<u>2020</u>
Employees and payroll accruals	\$ 19,597	\$ 13,970
Obligation related to acquisitions	8,725	-
Government authorities	6,706	3,422
Accrued expenses	4,560	3,003
Other short-term liabilities	743	793
	<u>\$ 40,331</u>	<u>\$ 21,188</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 8: DERIVATIVES AND HEDGING ACTIVITIES

The fair value of the Company's outstanding derivative instruments is as follows:

	Balance sheet	December 31,	
		2021	2020
Derivatives designate as hedging instruments:			
Foreign exchange forward contracts and other derivatives	"Prepaid expenses and other current assets"	\$ 75	\$ -
	"Accumulated other comprehensive income"	75	-
Derivatives not designated as hedging instruments:			
Foreign exchange forward contracts and other derivatives	"Prepaid expenses and other current assets"	\$ 21	\$ -
	"Accrued expenses and other liabilities"	3	-

The net amounts reclassified from accumulated other comprehensive loss to the operating expenses are as follows:

	Gain recognized in Statements of Comprehensive Income Year ended December 31, 2021	Statement of Income	Gain (loss) recognized in consolidated statements of Income		
			Year ended December 31,		
			2021	2020	2019
Derivatives designated as hedging instruments:					
Foreign exchange options and forward contracts	\$ (75)	"Operating expenses"	\$ 167	\$ 764	\$ 272
Derivatives not designated as hedging instruments:					
Foreign exchange options and forward contracts	-	"Financial expenses"	24	(166)	59
SWAP	-	"Financial expenses"	-	-	380
Total	\$ (75)		\$ 191	\$ 598	\$ 711

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 9: SHORT TERM AND LONG-TERM DEBT

On December 17, 2018, ClientConnect Ltd., a former Israeli subsidiary of Perion, which merged into Perion on June 30, 2020, 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, a US subsidiary of Perion. ClientConnect's obligations under the facility were assumed by Perion in the context of the merger. 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 Perion and Undertone and is guaranteed by Undertone. The guarantee by Undertone is limited to \$33,000. Financial covenants for the loan facility are tested at the level of Perion on a consolidated basis.

On March 8, 2021, the Company early repaid the full amount of its loan facility with bank Mizrahi of a principal amount of \$8,333 together with the accumulated interest up to this date as per the agreement.

NOTE 10: LEASES

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. The Company sublease part of the office to three different sub-tenants.

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 2024.

In January 2019, the Company's French subsidiary entered into a lease agreement for its office at Paris, France. The Company chose an early termination during December 2021.

Certain other facilities of the Company are rented under operating lease agreements, which expire on various dates, the latest of which is in 2023. The Company recognizes rent expense under such arrangements on a straight-line basis.

The Company's capitalized operating lease agreements have remaining lease terms ranging from 0.67 year to 4.33 years.

The following table represents the weighted-average remaining lease term and discount rate:

	Year ended December 31, 2021
Weighted average remaining lease term	3.72 Years
Weighted average discount rate	7.67%

The discount rate was determined based on the estimated collateralized borrowing rate of the Company, adjusted to the specific lease term and location of each lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Maturities of operating lease liabilities were as follows:

Year ending December 31,	
2022	4,485
2023	4,104
2024	4,101
2025	2,057
Thereafter	622
Total lease payments *)	15,369
Less – imputed interest	(1,980)
Present value of lease liabilities	<u>\$ 13,389</u>

*) Total lease payments have not been reduced by sublease rental payments of \$5,838 due in the future under non-cancelable subleases.

Facilities leasing expenses (net) in the years 2021, 2020 and 2019 were \$4,441, \$3,493, and \$3,076 respectively. Out of which, Sublease income amounted to \$2,838, \$2,682 and \$2,213 in the years 2021, 2020 and 2019, respectively.

Cash paid for amounts included in measurement of lease liabilities during 2021 was \$8,465.

NOTE 11: COMMITMENT AND CONTINGENT LIABILITIES

a. 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, the last of which was paid during January 2019.

b. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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.

b. 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 seven 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, 2021, there were 625,477 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, 2021:

	Number of options	Weighted average		Aggregate intrinsic value
		Exercise price	Remaining contractual term (in years)	
Outstanding at January 1, 2021	4,527,047	\$ 3.24	21.79	\$ 42,942
Granted	1,567,323	1.22	-	-
Exercised	(2,219,157)	3.11	-	39,395
Cancelled	(300,812)	4.82	-	-
Outstanding at December 31, 2021	3,574,401	\$ 2.46	45.90	\$ 77,173
Exercisable at December 31, 2021	968,706	\$ 4.45	4.27	\$ 18,984
Vested and expected to vest at December 31, 2021	3,432,075	\$ 2.54	2.13	\$ 73,693

The weighted-average grant-date fair value of options granted during the years ended December 31, 2021, 2020 and 2019 was \$18.55, \$3.14, and \$1.75, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

The aggregate intrinsic value of the outstanding share options at December 31, 2021, represents the intrinsic value of all outstanding options since they were all in-the-money as of such date.

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, 2021:

	Number of Performance based options	Weighted average		Aggregate intrinsic value
		Exercise price	Remaining contractual term (in years)	
Outstanding at January 1, 2021	769,311	\$ 2.78	40.53	7,653
Granted	436,963	-	-	-
Exercised	(15,000)	-	-	228
Cancelled	(287,374)	-	-	-
Outstanding at December 31, 2021	903,900	\$ 2.37	46.16	\$ 19,599
Exercisable at December 31, 2021	300,000	\$ 5.35	5.58	\$ 5,610
Vested and expected to vest at December 31, 2021	903,400	\$ 2.37	2.50	\$ 19,526

The weighted-average grant-date fair value of options granted during the year ended December 31, 2021 and 2020 was \$20.03 and \$3.12, respectively. No performance-based options were granted during 2019.

The aggregate intrinsic value of the outstanding performance-based options at December 31, 2021, represents the intrinsic value of all outstanding options since they were all in-the-money as of such date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

The following table summarizes additional information regarding outstanding and exercisable service-based options under the Company's share Option Plan as of December 31, 2021:

Range of exercise price	Outstanding			Exercisable		
	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price
\$ 0.01	2,009,425	78.46	\$ 0.01	8,658	78.18	\$ 0.01
2.52 – 3.38	521,053	3.01	3.16	456,651	2.94	3.16
4.23 – 5.90	493,433	4.45	5.01	287,651	4.02	4.92
6.23 – 8.34	450,989	4.49	6.77	214,413	4.45	6.72
\$ 12.02 – 21.35	99,501	6.24	16.28	1,333	6.11	12.02
	<u>3,574,401</u>	45.90	\$ 2.46	<u>968,706</u>	4.27	\$ 4.45

The following table summarizes additional information regarding outstanding and exercisable performance-based options under the Company's share Option Plan as of December 31, 2021:

Range of exercise price	Outstanding			Exercisable		
	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price
\$ 0.01	503,900	78.37	\$ 0.01	-	-	-
\$ 5.35	400,000	5.58	5.35	300,000	5.58	5.35
	<u>903,900</u>	46.16	\$ 2.37	<u>300,000</u>	5.58	\$ 5.35

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,		
	2021	2020	2019
Cost of revenues	\$ 171	\$ 102	\$ 164
Research and development	946	887	488
Selling and marketing	3,248	1,898	515
General and administrative	2,620	1,560	1,126
Total	<u>\$ 6,985</u>	<u>\$ 4,447</u>	<u>\$ 2,293</u>

As of December 31, 2021, there was \$16,293 of unrecognized compensation cost related to outstanding options. These amounts are expected to be recognized over a weighted-average period of 1.59 years related to outstanding options. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

- c. As part of the acquisition of Undertone, 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 were exercisable until December 27, 2020 and wasn't exercised by this date. No expense incurred in 2020. The total expense incurred in 2019 was \$59.

NOTE 13: FINANCIAL INCOME (EXPENSE), NET

	Year ended December 31,		
	2021	2020	2019
Financial income:			
Interest income	\$ 539	\$ 287	\$ 624
Change in fair value of SWAP	-	-	380
Other	-	45	147
	<u>\$ 539</u>	<u>\$ 332</u>	<u>\$ 1,151</u>
Financial expense:			
Foreign currency translation losses	\$ (528)	\$ (1,537)	\$ (950)
Interest expense on debts	(119)	(1,045)	(2,334)
Change in fair value of convertible debt	-	-	(600)
Bank charges and other	(473)	(388)	(737)
	<u>\$ (1,120)</u>	<u>\$ (2,970)</u>	<u>\$ (4,621)</u>
Financial expense, net	<u>\$ (581)</u>	<u>\$ (2,638)</u>	<u>\$ (3,470)</u>

NOTE 14: INCOME TAXES

- a. Income before taxes on income

Income before taxes on income is comprised as follows:

	Year ended December 31,		
	2021	2020	2019
Domestic	\$ 38,854	\$ 12,175	\$ 21,095
Foreign	6,461	(2,560)	(6,557)
Total	<u>\$ 45,315</u>	<u>\$ 9,615</u>	<u>\$ 14,538</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

b. Taxes on income

Taxes on income are comprised as follows:

	Year ended December 31,		
	2021	2020	2019
Current taxes	\$ 7,891	\$ 2,498	\$ 3,816
Taxes in respect of previous years	1,476	6	(129)
Deferred tax benefit	(2,758)	(3,114)	(2,042)
Total	\$ 6,609	\$ (610)	\$ 1,645

Taxes on income by jurisdiction were as follows:

	Year ended December 31,		
	2021	2020	2019
Domestic	\$ 8,060	\$ 1,031	\$ 3,055
Foreign	(1,451)	(1,641)	(1,410)
Total	\$ 6,609	\$ (610)	\$ 1,645
Domestic:			
Current taxes	\$ 7,447	\$ 1,466	\$ 3,519
Deferred tax benefit	(980)	(984)	(197)
Taxes in respect of previous years	1,593	549	(267)
Total - Domestic	\$ 8,060	\$ 1,031	\$ 3,055
Foreign:			
Current taxes	\$ 444	\$ 1,032	\$ 297
Deferred tax benefit	(1,778)	(2,130)	(1,845)
Taxes in respect of previous years	(117)	(543)	138
Total - Foreign	\$ (1,451)	\$ (1,641)	\$ (1,410)
Total income tax expense (benefit)	\$ 6,609	\$ (610)	\$ 1,645

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

c. Deferred Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The significant components of the Company's deferred tax assets and liabilities are as follows:

	December 31,	
	2021	2020
Deferred tax assets:		
Net operating loss and other losses carry forwards	\$ 4,955	\$ 4,049
Research and development	3,629	2,287
Intangible assets	(3,251)	1,476
Other temporary differences mainly relating to reserve and allowances	2,539	1,553
Deferred tax assets, before valuation allowance	\$ 7,872	\$ 9,365
Valuation allowance	2,644	2,254
Total deferred tax assets, net	\$ 5,228	\$ 7,111
Domestic:		
Long term deferred tax asset (liability), net	\$ (732)	\$ 2,034
	\$ (732)	\$ 2,034
Foreign:		
Long term deferred tax asset, net	\$ 5,960	\$ 5,077
	\$ 5,960	\$ 5,077
Total deferred tax asset, net	\$ 5,228	\$ 7,111

The \$390 change in the total valuation allowance for the year ended December 31, 2021, relates to the projected utilization of certain operating loss carry-forwards and temporary differences for which a full valuation allowance was previously recorded.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

A reconciliation between the theoretical tax expense, assuming all income is taxed at the statutory tax rate applicable to income of the Company, and the actual tax expense as reported in the statement of income is as follows:

	Year ended December 31,		
	2021	2020	2019
Income before taxes on income	\$ 45,315	\$ 9,615	\$ 14,538
Statutory tax rate in Israel	23.0%	23.0%	23.0%
Theoretical tax expense	\$ 10,422	\$ 2,211	\$ 3,344
Increase (decrease) in tax expenses resulting from:			
"Preferred Enterprise" benefits *	(5,610)	(1,701)	(2,973)
Non-deductible expenses	710	2,409	374
Tax adjustment in respect of different tax rate of foreign subsidiaries	226	228	397
Deferred taxes related to prior years	(922)	(1,576)	-
Previous years taxes	1,476	(147)	
Change in valuation allowance	390	(2,097)	421
Other	(83)	63	82
Taxes on income	\$ 6,609	\$ (610)	\$ 1,645
* Benefit per ordinary share from "Preferred Enterprise" status:			
Basic	\$ 0.16	\$ 0.06	\$ 0.11
Diluted	\$ 0.15	\$ 0.06	\$ 0.11

e. Income tax rates

Taxable income of Israeli companies was generally subject to corporate tax at the rate of 23% in 2021, 2020 and 2019. However, the effective tax rate payable by a company that derives income from a Preferred Enterprise or a Preferred Technological 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. Accordingly, no deferred income taxes have been provided in respect of these subsidiaries. If these earnings were distributed to Israel in the form of dividends or otherwise, the Company would be subject to additional Israeli income taxes (subject to an adjustment for foreign tax credits) and foreign withholding taxes. The amount of undistributed earnings of foreign subsidiaries is immaterial.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

f. Law for the Encouragement of Capital Investments, 1959

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

The Israeli parliament enacted a reform to the Investment Law, effective January 2011 (which was amended in August 2013). According to the reform, a flat rate tax applies to Preferred Income of companies eligible for the "Preferred Enterprise" status. In order to be eligible for Preferred Enterprise status, a company must meet minimum requirements to establish that it contributes to the country's economic growth and is a competitive factor for the gross domestic product.

The Company's Israeli operations elected "Preferred Enterprise" status, starting in 2011.

Benefits granted to a Preferred Enterprise include reduced tax rates. As part of the Economic Efficiency Law (Legislative Amendments for Accomplishment of Budgetary Targets for Budget Years 2017-2018), 5777-2016, the tax rate is 16% for all areas other than Development Area A (which was 7.5% from 2017 onward).

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 (subject to applicable treaty rates), 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 ("Amendment 73") was published and came into effect in May 2017 when regulations were promulgated by the Finance Ministry to implement the "Nexus Principles" based on OECD guidelines published as part of the Base Erosion and Profit Shifting (BEPS) project. According to Amendment 73, a Preferred Technological Enterprise, as defined in Amendment 73, with total consolidated revenues of less than NIS 10 billion, shall be subject to 12% tax rate on income derived from intellectual property (in development area A—a tax rate of 7.5%). In order to qualify as a Preferred Technological Enterprise certain criteria must be met, such as a minimum ratio of annual R&D expenditure and R&D employees, as well as having at least 25% of annual revenues derived from exports.

Any dividends distributed from income from the preferred technological enterprises will be subject to tax at a rate of 20%. Amendment 73 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 shareholders exceeds 90%). The Company assessed the criteria for qualifying as a "Preferred Technological Enterprise," status and concluded that the Company and certain of its Israeli subsidiaries are eligible to the above-mentioned benefits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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,	
	2021	2020
Balance at the beginning of the year	\$ 4,525	\$ 4,232
Increase related to prior year tax positions, net	1,285	293
Increase related to current year tax positions, net	1,118	-
Balance at the end of the year	\$ 6,928	\$ 4,525

In 2021, the Company recognizes interest accrued related to unrecognized tax benefits and penalties in tax expenses. The Company had \$834 and \$1,017 for the payment of interest and penalties accrued at December 31, 2021, and 2020, respectively which are included in the balance at the end of the year.

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. Federal for tax years prior to 2016 and 2017 respectively are considered final. The Company has net operating losses in the U.S. from prior tax periods beginning in 2011 which may be subject to examination upon utilization in future tax periods.

i. Tax loss carry-forwards

As of December 31, 2021, the Company's U.S. subsidiaries have Federal net operating loss carry-forwards of \$6,752 and States net operating loss carry-forwards of \$5,883. Net operating losses generated in fiscal years prior to 2018 in the U.S. may be carried forward through periods which will expire in the years starting from 2031 up to 2035. Net operating losses generated in 2018 and subsequent years in the U.S. may be carried forward indefinitely for Federal tax purposes yet are subject to certain limitations. Different states have varying rules regarding utilization and expiration of net operating losses. 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, 2021, the Company's European subsidiaries have net operating loss carry-forwards of \$7,293 which may be carried forward indefinitely.

The Company has accumulated net operating losses for Israeli tax purposes as of December 31, 2021, in the amount of approximately \$8,534 which may be carried forward and offset against taxable income in the future for an indefinite period. The net operating losses may be offset against taxable income annually with a limitation of up to 20% of the total accumulated losses but not more than 50% of the Company's taxable income. The limitation applies during the years 2020-2024. In addition, the Company has accumulated capital losses for tax purposes as of December 31, 2021, of approximately \$1,643, which may be carried forward and offset against taxable capital gains in the future for an indefinite period, but are limited as stated above.

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.

In March 2020, in response to the COVID-19 pandemic the Coronavirus Aid, Relief and Economic Security ("CARES") Act was enacted. The CARES Act comprises of a spending package and tax reliefs in order to reduce the impact of the pandemic. The tax portion of the CARES Act includes several corporate tax relief provisions such as: eliminating the taxable income limitation and allowing carryback to the prior 5 years for net operating losses ("NOLs") arising in 2018, 2019 and 2020; increasing the business interest deduction limitation from 30% to 50%; accelerated refunds of AMT credits and other provisions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 15: EARNINGS PER SHARE

The table below presents the computation of basic and diluted net earnings per common share:

	Year ended December 31,		
	2021	2020	2019
Numerator:			
Net income attributable to ordinary shares - basic	\$ 38,706	\$ 10,225	\$ 12,893
Net income - diluted	\$ 38,706	\$ 10,225	\$ 12,893
Denominator:			
Number of ordinary shares outstanding during the year	34,397,134	26,687,145	25,965,357
Weighted average effect of dilutive securities:			
Employee options and restricted share units	3,432,591	2,110,602	392,228
Diluted number of ordinary shares outstanding	37,829,725	28,797,747	26,357,585
Basic net earnings per ordinary share	\$ 1.13	\$ 0.38	\$ 0.50
Diluted net earnings per ordinary share	\$ 1.02	\$ 0.36	\$ 0.49
Potential ordinary shares equivalents excluded because their effect would have been anti-dilutive	1,035,307	3,178,024	4,087,559

NOTE 16: 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,		
	2021	2020	2019
Customer A	37%	51%	63%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 17: 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, 2021, 2020 and 2019, allocated to the geographic areas in which they were generated:

	Year ended December 31,		
	2021	2020	2019
North America (mainly U.S.)	\$ 423,571	\$ 272,220	\$ 195,903
Europe	48,109	49,222	50,669
Other	6,818	6,621	14,878
	<u>\$ 478,498</u>	<u>\$ 328,063</u>	<u>\$ 261,450</u>

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 long-lived assets as of December 31, 2021 and 2020:

	December 31,	
	2021	2020
Israel	\$ 8,049	\$ 11,343
U.S.	7,524	10,157
Europe	216	5,536
	<u>\$ 15,789</u>	<u>\$ 27,036</u>

ITEM 19.EXHIBITS:

Exhibit No.	Description	Form	File No.	Incorporation by Reference		Filed / Furnished
				Exhibit No.	Filing Date	
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					*
2.1	Description of Perion's Securities registered pursuant to Section 12 of the Securities Exchange Act of 1934					*
4.1†	Perion 2003 Israeli Share Option Plan and U.S. Addendum	20-F	000-51694	4.1	April 29, 2013	
4.2†	Perion Equity Incentive Plan	6-k	000-51694	99.9	October 15, 2013	
4.3†	Compensation Policy for Directors and Officers, as amended on December 2, 2021					*
4.4†	Translation of a certain Credit Agreement by and between Perion Network Ltd. and Mizrahi Tefahot Bank Ltd., effective as of December 17, 2018	20-F	000-51694	4.16	March 19, 2019	
4.5†	A Form of Indemnification Letter Agreement between the Company and its Present and Future Directors and Officers	20-F	000-51694	4.17	March 27, 2018	
4.6†	Bing Services Framework Agreement by and between Perion Network Ltd. and Microsoft Ireland Operations Limited, effective as of January 1, 2021***	20-F	000-51694	4.6	March 25, 2021	
4.7	Membership Interest Purchase Agreement by and between Perion Network Ltd., Mr. Assaf Katzir, Mr. Ziv Yarmiyahu and Content IQ LLC, dated January 14, 2020***	20-F	000-51694	4.7	March 25, 2021	
4.8	Summary in English of Lease Agreement by and between Perion Network Ltd. and Kanit HaShalom Investments Ltd., dated January 28, 2014, as amended on October 7, 2015 and December 26, 2019	20-F	000-51694	4.8	March 16, 2020	
8.1	List of Subsidiaries					*
12.1	Certification required by Rule 13a-14(a) or Rule 15d-14(a) executed by the Chief Executive Officer of the Company					*
12.2	Certification required by Rule 13a-14(a) or Rule 15d-14(a) executed by the Chief Financial Officer of the Company					*
13.1	Certification required by Rule 13a-14(b) or Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code					**
13.2	Certification required by Rule 13a-14(b) or Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code					**
15.1	Consent of Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global, Independent Auditors					*
101.INS	Inline XBRL Instance Document					
101.SCH	Inline XBRL Taxonomy Extension Schema Document					
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document					
101.DEF	Inline XBRL Taxonomy Definition Linkbase Document					
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document					
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document					
104**	Inline XBRL for the cover page of this Annual Report on Form 20-F (embedded within the Inline XBRL document)					

* Filed herewith.

** Furnished herewith.

*** Certain confidential information contained in this document, marked by brackets, was omitted because it is both (i) not material and (ii) would likely cause competitive harm to the Company if publicly disclosed. "[***]" indicates where the information has been omitted from this exhibit.

† Indicates management contract or compensatory plan or arrangement.

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 16, 2022

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 1,800,000, consisting of 60,000,000 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.
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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 1,800,000, consisting of 60,000,000 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 or otherwise as may be stipulated in the resolution or other instrument authorizing such new 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.
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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.
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13. Registered Holder

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

14. Payment in Installment

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

15. Calls on Shares

- 15.1. The Board may, from time to time, as in its discretion it deems fit, make calls for payment upon Shareholders in respect of any sum which has not been paid up in respect of shares held by such Shareholders and that is not, pursuant to the terms of allotment or issue of such shares or otherwise, payable at a fixed time. Each Shareholder shall pay the amount of every call so made upon him (and of each installment thereof if the same is payable in installments), to the person(s) and at the time(s) and place(s) designated by the Board. Unless otherwise stipulated in the resolution of the Board (and in the notice referred to below), each payment in response to a call shall be deemed to constitute a pro rata payment on account of all the shares in respect of which such call was made.
 - 15.2. Notice of any call for payment by a Shareholder shall be given in writing to such Shareholder not less than 14 days prior to the time of payment fixed in such notice, and shall specify the time and place of payment, and the person to whom such payment is to be made. Prior to the time for any such payment fixed in a notice of a call given to a Shareholder, the Board may in its discretion, by notice in writing to such Shareholder, revoke such call in whole or in part, extend the time fixed for payment thereof, or designate a different place of payment or person to whom payment is to be made. In the event of a call payable in installments, only one notice thereof need be given.
 - 15.3. If, pursuant to the terms of allotment or issue of a share or otherwise, an amount is made payable at a fixed time (whether on account of such share or by way of premium), such amount shall be payable at such time as if it were payable by virtue of a call made by the Board and for which notice was given in accordance with this Article 15, and the provisions of these Articles with regard to calls (and the non-payment thereof) shall be applicable to such amount (and the non-payment thereof).
 - 15.4. Joint holders of a share shall be jointly and severally liable to pay all calls for payment in respect of such share and all interest payable thereon.
 - 15.5. Any amount called for payment that is not paid when due shall bear interest from the date fixed for payment until actual payment thereof, at such rate and payable at such time(s) as the Board may prescribe.
 - 15.6. The Board may provide for differences among the allottees of such shares as to the amounts and times for payment of calls for payment in respect of such shares.
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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.
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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, 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.

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 thereof), 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.
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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.
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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.
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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.

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.
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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 engagements 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.
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- 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;
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- 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.
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Description of Securities

Perion Network Ltd., an Israeli corporation (the “Company,” “we” or “our”), currently has one class of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended, the Company’s ordinary shares, par value NIS 0.03 per share. The following is a summary of some of the terms of our ordinary shares based on our articles of association, as may be amended and restated from time to time, and Israeli law.

The following summary is not complete and is subject to, and is qualified in its entirety by reference to, the provisions of our articles of association and Israeli law.

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 1,800,000, divided into 60,000,000 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 amended compensation policy was approved by our shareholders in December 2021.

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.
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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.

COMPENSATION POLICY

PERION NETWORK LTD.

Compensation Policy for Executive Officers and Directors

(As Amended on December 2, 2021)

1. Introduction

This document sets forth the Compensation Policy for Executive Officers and Directors (this “**Compensation Policy**” or “**Policy**”) of Perion Network Ltd. (“**Perion**” or the “**Company**”), in accordance with the requirements of the Companies Law, 5759-1999 (the “**Companies Law**”).

Compensation is a key component of Perion’s overall human capital strategy to attract, retain, reward, and motivate highly skilled individuals that will enhance Perion’s value and otherwise assist Perion to reach its business and financial long-term goals. Accordingly, the structure of this Policy is established to tie the compensation of each officer to Perion’s goals and performance.

For purposes of this Policy, “Executive Officers” shall mean “Office Holders” as such term is defined in Section 1 of the Companies Law, excluding, unless otherwise expressly indicated herein, Perion’s directors.

This policy is subject to applicable law and is not intended, and should not be interpreted as limiting or derogating from, provisions of applicable law to the extent not permitted.

This Policy shall apply to compensation agreements and arrangements which will be approved after the date on which this Policy is adopted and shall serve as Perion’s Compensation Policy for three (3) years, commencing as of its adoption, unless amended earlier.

The Compensation Committee and the Board of Directors of Perion (the “**Compensation Committee**” and the “**Board**”, respectively) shall review and reassess the adequacy of this Policy from time to time, as required by the Companies Law.

2. Objectives

Perion’s objectives and goals in setting this Policy are to attract, motivate and retain highly experienced leaders who will contribute to Perion’s success and enhance shareholder value, while demonstrating professionalism in a highly achievement-oriented culture that is based on merit and rewards excellent performance in the long term, and embedding Perion’s core values as part of a motivated behavior. To that end, this Policy is designed, among others:

- 2.1. To closely align the interests of the Executive Officers with those of Perion’s shareholders in order to enhance shareholder value;
 - 2.2. To align a significant portion of the Executive Officers’ compensation with Perion’s short and long-term goals and performance;
 - 2.3. To provide the Executive Officers with a structured compensation package, including competitive salaries, performance-motivating cash and equity incentive programs and benefits, and to be able to present to each Executive Officer an opportunity to advance in a growing organization;
 - 2.4. To strengthen the retention and the motivation of Executive Officers in the long term;
 - 2.5. To provide appropriate awards in order to incentivize superior individual excellency and corporate performance; and
 - 2.6. To maintain consistency in the way Executive Officers are compensated.
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3. Compensation Instruments

Compensation instruments under this Policy may include the following:

- 3.1. Base salary;
- 3.2. Benefits;
- 3.3. Cash bonuses;
- 3.4. Equity based compensation;
- 3.5. Change of control terms; and
- 3.6. Retirement and termination terms.

4. Overall Compensation - Ratio Between Fixed and Variable Compensation

- 4.1. This Policy aims to balance the mix of "Fixed Compensation" (comprised of base salary and benefits) and "Variable Compensation" (comprised of cash bonuses and equity-based compensation) in order to, among other things, appropriately incentivize Executive Officers to meet Perion's short and long-term goals while taking into consideration the Company's need to manage a variety of business risks.
- 4.2. The total annual target bonus and equity-based compensation per vesting annum (based on the fair market value at the time of grant calculated on a liner basis) of each Executive Officer shall not exceed 90% of the total compensation package of such Executive Officer on an annual basis.

5. Inter-Company Compensation Ratio

- 5.1. In the process of drafting and updating this Policy, Perion's Board and Compensation Committee have examined the ratio between employer cost associated with the engagement of the Executive Officers, including directors, and the average and median employer cost associated with the engagement of Perion's other employees (including contractor employees as defined in the Companies Law) (the "Ratio").
- 5.2. The possible ramifications of the Ratio on the daily working environment in Perion were examined and will continue to be examined by Perion from time to time in order to ensure that levels of executive compensation, as compared to the overall workforce will not have a negative impact on work relations in Perion.

B. Base Salary and Benefits

6. Base Salary

- 6.1. A base salary provides stable compensation to Executive Officers and allows Perion to attract and retain competent executive talent and maintain a stable management team. The base salary varies among Executive Officers, and is individually determined according to the educational background, prior vocational experience, qualifications, company's role, business responsibilities and the past performance of each Executive Officer.
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- 6.2. Since a competitive base salary is essential to Perion's ability to attract and retain highly skilled professionals, Perion will seek to establish a base salary that is competitive with base salaries paid to Executive Officers in a peer group of other companies operating in technology sectors which are similar in their characteristics to Perion's, as much as possible, while considering, among others, such companies' size and characteristics including their revenues, market capitalization, number of employees and operating arena (in Israel or globally), the list of which shall be reviewed and approved by the Compensation Committee. To that end, Perion shall utilize as a reference, comparative market data and practices, which will include a compensation survey that compares and analyses the level of the overall compensation package offered to an Executive Officer of the Company with compensation packages in similar positions to that of the relevant officer) in such companies. Such compensation survey may be conducted internally or through an external independent consultant. Information on such compensation survey shall be included in the proxy statement published in connection with the annual general meeting of Perion's shareholders.
- 6.3. The Compensation Committee and the Board may periodically consider and approve base salary adjustments for Executive Officers. The main considerations for salary adjustment are similar to those used in initially determining the base salary, but may also include change of role or responsibilities, recognition for professional achievements, regulatory or contractual requirements, budgetary constraints or market trends. The Compensation Committee and the Board will also consider the previous and existing compensation arrangements of the Executive Officer whose base salary is being considered for adjustment. Any limitation herein based on the annual base salary shall be calculated based on the monthly base salary applicable at the time of consideration of the respective grant or benefit.

7. **Benefits**

- 7.1. The following benefits may be granted to the Executive Officers in order, among other things, to comply with legal requirements:
- 7.1.1. Vacation days in accordance with market practice;
 - 7.1.2. Sick days in accordance with market practice;
 - 7.1.3. Convalescence pay according to applicable law;
 - 7.1.4. Monthly remuneration for a study fund, as allowed by applicable law and with reference to Perion's practice and the practice in peer group companies;
 - 7.1.5. Perion shall contribute on behalf of the Executive Officer to an insurance policy or a pension fund, as allowed by applicable law and with reference to Perion's policies and procedures and the practice in peer group companies (including contributions on bonus payments); and
 - 7.1.6. Perion shall contribute on behalf of the Executive Officer towards work disability insurance, as allowed by applicable law and with reference to Perion's policies and procedures and to the practice in peer group companies.
- 7.2. Non-Israeli Executive Officers may receive other similar, comparable or customary benefits as applicable in the relevant jurisdiction in which they are employed. Such customary benefits shall be determined based on the methods described in Section 6.2 of this Policy (with the necessary changes and adjustments).
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7.3. In events of relocation or repatriation of an Executive Officer to another geography, such Executive Officer may receive other similar, comparable or customary benefits as applicable in the relevant jurisdiction in which he or she is employed or additional payments to reflect adjustments in cost of living. Such benefits shall include reimbursement for out of pocket one-time payments and other ongoing expenses, such as housing allowance, car allowance, and home leave visit, etc.

7.4. Perion may offer additional benefits to its Executive Officers, which will be comparable to customary market practices, such as, but not limited to: cellular and land line phone benefits, company car and travel benefits, reimbursement of business travel including a daily stipend when traveling and other business related expenses, insurances, other benefits (such as newspaper subscriptions, academic and professional studies), etc., provided, however, that such additional benefits shall be determined in accordance with Perion's policies and procedures.

C. Cash Bonuses

8. Annual Cash Bonuses - The Objective

8.1. Compensation in the form of an annual cash bonus is an important element in aligning the Executive Officers' compensation with Perion's objectives and business goals. Therefore, a pay-for-performance element, as payout eligibility and levels are determined based on actual financial and operational results, as well as individual performance.

8.2. An annual cash bonus may be awarded to Executive Officers upon the attainment of pre-set periodical objectives and individual targets determined by the Compensation Committee (and, if required by law, by the Board) at the beginning of each calendar year, or upon engagement, in case of newly hired Executive Officers, taking into account Perion's short and long-term goals, as well as its compliance and risk management policies. The Compensation Committee and the Board shall also determine applicable minimum thresholds that must be met for entitlement to the annual cash bonus (all or any portion thereof) and the formula for calculating any annual cash bonus payout, with respect to each calendar year, for each Executive Officer. In special circumstances, as determined by the Compensation Committee and the Board (e.g., regulatory changes, significant changes in Perion's business environment, a significant organizational change, a significant merger and acquisition events etc.), the Compensation Committee and the Board may modify the objectives and/or their relative weights during the calendar year.

8.3. In the event the employment of an Executive Officer is terminated prior to the end of a fiscal year, the Company may (but shall not be obligated to) pay such Executive Officer a full annual cash bonus or a prorated one.

8.4. The actual annual cash bonus to be awarded to Executive Officers shall be approved by the Compensation Committee and the Board.

9. Annual Cash Bonuses - The Formula

Executive Officers other than the CEO

9.1. The annual cash bonus of Perion's Executive Officers, other than the chief executive officer (the "CEO"), will be based on performance objectives and a discretionary evaluation of the Executive Officer's overall performance and subject to minimum thresholds based on overall company performance. The performance objectives will be approved by the Compensation Committee (and, if required by law, by the Board) at the commencement of each calendar year (or upon engagement, in case of newly hired Executive Officers or in special circumstances as indicated in Section 8.2 above) on the basis of, but not limited to, company, division or individual objectives. The performance measurable objectives, which include the objectives and the weight to be assigned to each achievement in the overall evaluation, may be based on actual financial and operational results against annual plan, such as revenues, operating income and cash flow and may further include, divisional or personal objectives which may include operational objectives, such as market share, initiation of new markets and operational efficiency, customer focused objectives, project milestones objectives and investment in human capital objectives, such as employee satisfaction, employee retention and employee training and leadership programs.

- 9.2. The target annual cash bonus that an Executive Officer, other than the CEO, will be entitled to receive for any given calendar year, will not exceed 100% of such Executive Officer's annual base salary.
- 9.3. The maximum annual cash bonus including for overachievement performance that an Executive Officer, other than the CEO, will be entitled to receive for any given calendar year, will not exceed 150% of such Executive Officer's annual base salary.

CEO

- 9.4. The annual cash bonus of Perion's CEO will be mainly based on performance measurable objectives and subject to minimum thresholds as provided in Section 8.2 above. Such performance measurable objectives will be determined annually by Perion's Compensation Committee (and, if required by law, by Perion's Board) at the commencement of each calendar year (or upon engagement, in case of newly hired CEO or in special circumstances as indicated in Section 8.2 above) on the basis of, but not limited to, company and personal objectives. These performance measurable objectives will include the objectives and the weight to be assigned to each achievement in the overall evaluation.
- 9.5. The less significant part of the annual cash bonus granted to Perion's CEO, and in any event not more than 30% of the annual cash bonus, may be based on a discretionary evaluation of the CEO's overall performance by the Compensation Committee and the Board based on quantitative and qualitative criteria.
- 9.6. The target annual cash bonus that the CEO will be entitled to receive for any given calendar year, will not exceed 100% of his or her annual base salary.
- 9.7. The maximum annual cash bonus including for overachievement performance that the CEO will be entitled to receive for any given calendar year, will not exceed 150% of his or her annual base salary.

10. **Other Bonuses**

- 10.1. **Special Bonus.** Perion may grant its Executive Officers a special bonus as an award for special achievements (such as in connection with mergers and acquisitions, offerings, achieving target budget or business plan under exceptional circumstances or special recognition in case of retirement), as a retention award at the CEO's discretion (and in the CEO's case, at the Board's discretion) or as a non-compete grant, subject to any additional approval as may be required by the Companies Law (the "**Special Bonus**"). The Special Bonus will not exceed 100% of the Executive Officer's annual base salary.
 - 10.2. **Signing Bonus.** Perion may grant a newly recruited Executive Officer a signing bonus at the CEO's discretion (and in the CEO's case, at the Board's discretion), subject to any additional approval as may be required by the Companies Law (the "**Signing Bonus**"). The Signing Bonus will not exceed 100% of the Executive Officer's annual base salary.
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10.3. **Relocation/Repatriation Bonus.** Perion may grant its Executive Officers a special bonus in the event of relocation or repatriation of an Executive Officer to another geography (the “**Relocation Bonus**”). The Relocation bonus will include customary benefits associated with such relocation and its monetary value will not exceed 100% of the Executive Officer’s annual base salary.

11. Compensation Recovery (“Clawback”)

11.1. In the event of an accounting restatement, Perion shall be entitled to recover from its Executive Officers the bonus compensation or performance-based equity compensation in the amount in which such compensation exceeded what would have been paid under the financial statements, as restated, provided that a claim is made by Perion prior to the second anniversary of fiscal year end of the restated financial statements.

11.2. Notwithstanding the aforesaid, the compensation recovery will not be triggered in the following events:

11.2.1. The financial restatement is required due to changes in the applicable financial reporting standards; or

11.2.2. The Compensation Committee has determined that clawback proceedings in the specific case would be impossible, impractical or not commercially or legally efficient.

11.3. Nothing in this Section 11 derogates from any other “clawback” or similar provisions regarding disgorging of profits imposed on Executive Officers by virtue of applicable securities laws.

D. Equity Based Compensation

12. The Objective

12.1. The equity-based compensation for Perion’s Executive Officers is designed in a manner consistent with the underlying objectives in determining the base salary and the annual cash bonus, with its main objectives being to enhance the alignment between the Executive Officers’ interests with the long-term interests of Perion and its shareholders, and to strengthen the retention and the motivation of Executive Officers in the long term. In addition, since equity-based awards are structured to vest over several years, their incentive value to recipients is aligned with longer-term strategic plans.

12.2. The equity-based compensation offered by Perion is intended to be in a form of share options and/or other equity-based awards, such as RSUs, in accordance with the Company’s equity incentive plan in place as may be updated from time to time.

12.3. All equity-based incentives granted to Executive Officers shall be subject to vesting periods in order to promote long-term retention of the awarded Executive Officers. Unless determined otherwise in a specific award agreement approved by the Compensation Committee and the Board, grants to Executive Officers other than non-employee directors shall vest gradually over a period of between three (3) to five (5) years or based on performance. The exercise price of options shall be determined in accordance with Perion’s policies, the main terms of which shall be disclosed in the annual report of Perion. Equity-based awards may include dividend adjustment provisions.

12.4. All other terms of the equity awards shall be in accordance with Perion’s incentive plans and other related practices and policies. Accordingly, the Board may, following approval by the Compensation Committee, extend the period of time for which an award is to remain exercisable and make provisions with respect to the acceleration of the vesting period of any Executive Officer’s awards, including, without limitation, in connection with a corporate transaction involving a change of control, subject to any additional approval as may be required by the Companies Law.

13. **General Guidelines for the Grant of Awards**

- 13.1. The equity-based compensation shall be granted from time to time and be individually determined and awarded according to the performance, educational background, prior business experience, qualifications, role and the personal responsibilities of the Executive Officer.
- 13.2. In determining the equity-based compensation granted to each Executive Officer, the Compensation Committee and Board shall consider the factors specified in Section 13.1 above, and in any event the total fair market value of an equity-based compensation at the time of grant shall not exceed per vesting annum: (i) with respect to the CEO - 400% of his or her annual base salary; and (ii) with respect to each of the other Executive Officers 260% of his or her annual base salary.
- 13.3. The fair market value of the equity-based compensation for the Executive Officers will be determined according to acceptable valuation practices at the time of grant.

E. Retirement and Termination of Service Arrangements

14. **Advanced Notice Period**

Perion may provide an Executive Officer, other than the CEO, according to his/her seniority in the Company, his/her contribution to the Company's goals and achievements and the circumstances of retirement and the CEO a prior notice of termination of up to twelve (12) months in the case of the CEO and six (6) months in the case of other Executive Officers, during which the Executive Officer may be entitled to all of the compensation elements, and to the continuation of vesting of his/her equity-based compensation.

15. **Additional Retirement and Termination Benefits**

Perion may provide additional retirement and terminations benefits and payments as may be required by applicable law (e.g., mandatory severance pay under Israeli labor laws), or which will be comparable to customary market practices.

F. Exculpation, Indemnification and Insurance

16. **Exculpation**

Perion may exempt its directors and Executive Officers in advance for all or any of his/her liability for damage in consequence of a breach of the duty of care vis-a-vis Perion, to the fullest extent permitted by applicable law.

17. **Insurance and Indemnification**

- 17.1. Perion may indemnify its directors and Executive Officers to the fullest extent permitted by applicable law, for any liability and expense that may be imposed on the director or the Executive Officer, as provided in the indemnity agreement between such individuals and Perion, all subject to applicable law and the Company's articles of association.
- 17.2. Perion will provide directors' and officers' liability insurance (the "**Insurance Policy**") for its directors and Executive Officers as follows:
- 17.2.1. Reserved;



- 17.2.2. The limit of liability of the insurer shall not exceed the greater of \$100 million or 30% of the Company's shareholders equity based on the most recent financial statements of the Company at the time of approval by the Compensation Committee; and
- 17.2.3. The Insurance Policy, as well as the limit of liability and the premium for each extension or renewal shall be approved by the Compensation Committee (and, if required by law, by the Board) which shall determine that the sums are reasonable considering Perion's exposures, the scope of coverage and the market conditions and that the Insurance Policy reflects the current market conditions, and it shall not materially affect the Company's profitability, assets or liabilities.
- 17.3. Upon circumstances to be approved by the Compensation Committee (and, if required by law, by the Board), Perion shall be entitled to enter into a "run off" Insurance Policy of up to seven (7) years, with the same insurer or any other insurance, as follows:
 - 17.3.1. The limit of liability of the insurer shall not exceed the greater of \$100 million or 30% of the Company's shareholders equity based on the most recent financial statements of the Company at the time of approval by the Compensation Committee;
 - 17.3.2. Reserved; and
 - 17.3.3. The Insurance Policy, as well as the limit of liability and the premium for each extension or renewal shall be approved by the Compensation Committee (and, if required by law, by the Board) which shall determine that the sums are reasonable considering the Company's exposures covered under such policy, the scope of cover and the market conditions, and that the Insurance Policy reflects the current market conditions and that it shall not materially affect the Company's profitability, assets or liabilities.
- 17.4. Perion may extend the Insurance Policy in place to include cover for liability pursuant to a future public offering of securities as follows:
 - 17.4.1. Reserved; and
 - 17.4.2. The Insurance Policy, as well as the additional premium shall be approved by the Compensation Committee (and if required by law, by the Board) which shall determine that the sums are reasonable considering the exposures pursuant to such public offering of securities, the scope of cover and the market conditions and that the Insurance Policy reflects the current market conditions, and it does not materially affect the Company's profitability, assets or liabilities.

G. Board of Directors Compensation

- 18. The following benefits may be granted to Perion's Board members:
 - 18.1. All Perion's non-employee Board members may be entitled to an annual cash fee of \$50,000 per year (and in the case of the chairperson of the Board, \$100,000 per year).
 - 18.2. The compensation of the Company's external directors, if elected, shall be in accordance with the Companies Regulations (Rules Regarding the Compensation and Expenses of an External Director), 5760-2000, as amended by the Companies Regulations (Relief for Public Companies Traded in Stock Exchange Outside of Israel), 5760-2000, as such regulations may be amended from time to time.
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- 18.3. Notwithstanding the provisions of Sections 18.1 above, in special circumstances, such as in the case of a professional director, an expert director or a director who makes a unique contribution to the Company, such director's compensation may be different than the compensation of all other directors and may be greater than the maximal amount allowed under Section 18.1.
- 18.4. Each non-employee member of Perion's Board may be granted with an annual equity-based compensation with a fair market value not to exceed \$200,000 per vesting annum (calculated at the time of grant on a linear basis). The equity-based compensation may be accelerated in the event of a change of control and include dividend adjustment provisions.
- 18.5. All other terms of the equity awards shall be in accordance with Perion's incentive plans and other related practices and policies. Accordingly, the Board may, following approval by the Compensation Committee, extend the period of time for which an award is to remain exercisable or make provisions with respect to the acceleration of the vesting period of any awards, including, without limitation, in connection with a corporate transaction involving a change of control, subject to any additional approval as may be required by the Companies Law.
- 18.6. In addition, members of Perion's Board may be entitled to reimbursement of expenses in connection with the performance of their duties.

I. Miscellaneous

19. Nothing in this Policy shall be deemed to grant any of Perion's Executive Officers or employees or any third party any right or privilege in connection with their employment by the Company. Such rights and privileges shall be governed by the respective personal employment agreements. The Board may determine that none or only part of the payments, benefits and perquisites detailed in this Policy shall be granted, and is authorized to cancel or suspend a compensation package or part of it.
20. An Immaterial Change in the Terms of Employment of an Executive Officer other than the CEO may be approved by the CEO, provided that the amended terms of employment are in accordance with this Policy. An "Immaterial Change in the Terms of Employment" means a change in the terms of employment of an Executive Officer with an annual total cost to the Company not exceeding an amount equal to two (2) monthly base salaries of such employee.
21. In the event that new regulations or law amendment in connection with Executive Officers' and directors' compensation will be enacted following the adoption of this Policy, Perion may follow such new regulations or law amendments, even if such new regulations are in contradiction to the compensation terms set forth herein.

This Policy is designed solely for the benefit of Perion and none of the provisions thereof are intended to provide any rights or remedies to any person other than Perion.

Subsidiaries of the Registrant

Legal Name of Subsidiary	Jurisdiction of Organization
CodeFuel Ltd.	Israel
IncrediMail, Inc.	United States
Smilebox, Inc.	United States
IncrediTone, Inc.	United States
Content IQ, LLC	United States
BT Media, LLC	United States
Pub Ocean Limited	England and Wales
Make Me Reach SAS	France
Vidazoo Ltd.	Israel

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.
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 16, 2022

/s/ Doron Gerstel
Doron Gerstel
Chief Executive Officer

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.
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 16, 2022

/s/ Maoz Sigron
Maoz Sigron
Chief Financial Officer

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, 2021, 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 16, 2022

By: /s/ Doron Gerstel
Doron Gerstel
Chief Executive Officer

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, 2021, 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 16, 2022

by: /s/ Maoz Sigron
Maoz Sigron
Chief Financial Officer

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-133968, 333-152010, 333-171781, 333-188714, 333-192376, 333-193145, 333-203641, 333-208278, 333-216494, 333-237196, 333-249846 and 333-262260) and to the incorporation by reference in the Registration Statement (Form F-3 ASR No. 333-261541) and related Prospectus of our reports dated March 16, 2022, with respect to the consolidated financial statements of Perion Network Ltd. and its subsidiaries, and the effectiveness of internal control over financial reporting of Perion Network Ltd. and its subsidiaries, included in this Annual Report (Form 20-F) for the year ended December 31, 2021.

Tel Aviv, Israel
March 16, 2022

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