

**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, 2016

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)

Yacov Kaufman, CFO

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 ILS 0.01 per share

Name of Each Exchange on which Registered
NASDAQ Global Select Market

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

None
(Title of Class)

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

None
(Title of Class)

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

As of December 31, 2016, the Registrant had outstanding 77,223,069 ordinary shares, par value ILS 0.01 per share.

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

Yes ☐ No ☒

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

Yes ☐ No ☒

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

Yes ☒ No ☐

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

Yes ☒ No ☐

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

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

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

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

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

Item 17 ☐ Item 18 ☐

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 "ILS" are to New Israeli Shekels, the lawful currency of the State of Israel. This annual report contains translations of certain ILS amounts into U.S. dollars at specified rates solely for your convenience. These translations should not be construed as representations by us that the ILS 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 ILS amounts into U.S. dollars at an exchange rate of ILS 3.845 to \$1.00, the representative exchange rate reported by the Bank of Israel on the last business day before December 31, 2016.

Forward-Looking Statements

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

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

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

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

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

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. SELECTED FINANCIAL DATA

On January 2, 2014, we purchased all of the outstanding shares of ClientConnect Ltd. ("ClientConnect"), which received the ClientConnect business of Conduit Ltd. ("Conduit") on December 31, 2013, in a stock-for-stock transaction (the "ClientConnect Acquisition"). Immediately following the closing, approximately 81% of our shares were owned by the former ClientConnect shareholders and option holders, and 19% by our pre-closing shareholders and option holders, on a fully diluted basis (as determined pursuant to the purchase agreement). Accordingly, since 2014, the ClientConnect Acquisition has been reflected in our financial statements as a reverse acquisition of all of our outstanding shares and options by ClientConnect in accordance with Accounting Standards Codification Topic 805, "Business Combinations" ("ASC 805"), using the acquisition method of accounting whereby ClientConnect is the deemed accounting acquirer and Perion is the deemed accounting acquiree. In accordance with the ASC 805 presentation requirements, our financial statements include ClientConnect's comparative numbers, but not Perion's comparative numbers, for the years preceding 2014.

We derived the selected operations data below for the years ended December 31, 2014, 2015 and 2016 and the selected balance sheet data as of December 31, 2015 and 2016 from our audited consolidated financial statements and the related notes to the financial statements included elsewhere herein (the "Financial Statements"). We derived the selected operations data below for the years ended December 31, 2012 and 2013 and the selected balance sheet data as of December 31, 2012, 2013 and 2014 from our audited consolidated financial statements not incorporated by reference in this report. Our consolidated financial statements are prepared and presented in U.S. dollars and in accordance with U.S. Generally Accepted Accounting Principles ("U.S. GAAP"). The following tables present selected financial data and should be read in conjunction with "Item 5 – Operating and Financial Review and Prospects" and our Financial Statements.

(in thousands, except share and per share data)

	Year ended December 31,				
	2012	2013	2014	2015	2016
Revenues:					
Search and other	\$ 517,060	\$ 277,275	\$ 343,655	\$ 188,897	\$ 172,683
Advertising	19,948	48,233	45,076	32,053	140,111
Total Revenues	537,008	325,508	388,731	220,950	312,794
Costs and Expenses:					
Cost of revenues	4,159	4,724	10,950	7,877	16,515
Customer acquisition costs and media buy	119,555	185,355	174,575	91,194	140,210
Research and development	16,858	22,057	37,427	21,692	26,528
Selling and marketing	7,920	10,172	20,792	22,886	58,572
General and administrative	4,188	18,848	36,730	31,064	32,916
Restructuring charges	-	-	3,981	1,052	728
Impairment, net of gain on reversal of contingent consideration	-	-	19,941	72,785	-
Depreciation and amortization	1,871.00	2,110.00	21,321	11,422	25,977
Total Costs and Expenses	154,551	243,266	325,717	259,972	301,446
Income (Loss) from Operations	382,457	82,242	63,014	(39,022)	11,348
Financial income (expense), net	7,696	2,782	(2,888)	(1,939)	(8,288)
Income (Loss) before Taxes on Income	390,153	85,024	60,126	(40,961)	3,060
Taxes on income	75,435	22,616	10,816	697	212
Net Income (Loss) from Continuing Operations	314,718	62,408	49,310	(41,658)	2,848
Net loss from discontinued operations	23,798	33,795	6,484	26,999	2,647
Net Income (Loss)	\$ 290,920	\$ 28,613	\$ 42,826	\$ (68,657)	\$ 201
Net Earnings (Loss) per Share - Basic:					
Continuing operations	\$ 6.02	\$ 1.16	\$ 0.72	\$ (0.58)	\$ 0.04
Discontinued operations	\$ (0.45)	\$ (0.63)	\$ (0.10)	\$ (0.38)	(0.04)
Net Income (Loss)	\$ 5.57	\$ 0.53	\$ 0.62	\$ (0.96)	\$ 0.00*)
Net Earnings (Loss) per Share – Diluted:					
Continuing operations	\$ 5.91	\$ 1.14	\$ 0.67	\$ (0.58)	\$ 0.04
Discontinued operations	\$ (0.45)	\$ (0.62)	\$ (0.09)	\$ (0.38)	(0.04)
Net Income (Loss)	\$ 5.46	\$ 0.52	\$ 0.58	\$ (0.96)	\$ 0.00*)
Number of shares continuing and discontinued:					
Basic	52,320,133	53,910,741	68,213,209	71,300,432	76,560,454
Diluted	53,264,743	54,837,307	70,327,411	71,300,432	76,673,803

*) Less than \$0.01

Balance Sheet Data (in thousands):

	As of December 31,				
	2012	2013	2014	2015	2016
Cash and cash equivalents	\$ 78,395	\$ 949	\$ 101,183	\$ 17,519	\$ 23,962
Working capital (**)	\$ 208,793	\$ (19,682)	\$ 91,255	\$ 37,394	\$ 27,048
Total assets (**)	\$ 308,920	\$ 31,058	\$ 356,139	\$ 442,298	\$ 368,452
Total liabilities (**)	\$ 64,899	\$ 21,031	\$ 110,142	\$ 242,461	\$ 160,308
Shareholders' equity	\$ 244,021	\$ 10,027	\$ 245,997	\$ 199,837	\$ 208,144

** In November 2015, the Financial Accounting Standards Board, or the FASB, issued Accounting Standards Update No. 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes (ASU 2015-17), which simplifies the presentation of deferred income taxes by requiring deferred tax assets and liabilities to be classified as noncurrent on the balance sheet. We have early adopted this standard retrospectively, and reclassified all of our current deferred tax assets to noncurrent deferred tax assets which has resulted in a change to previously published amounts.

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

Digital Advertising Business

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

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

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

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

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

These companies, along with other large and established Internet and technology companies, may also leverage their power to make changes to their web browsers, operating systems, platforms, networks or other products or services in a way that impacts the entire digital advertising marketplace. These changes could materially impact the way we do business, and if we are unable to quickly and effectively adjust to those changes, there could be an adverse effect on our revenues and performance.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Advertisement-blocking technologies, such as mobile apps or browser extensions that limit or block the delivery or display of advertisements, are currently available for desktop and mobile users. Further, new browsers and operating systems, or updates to current browsers or operating systems, offer users the ability to block ads. If these technologies become widespread, the commercial viability of the current Internet ad-supported model may be undermined, thereby adversely affecting 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 and revenue.

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

Our publishers or advertisers might decide not to allow us to collect some or all of this data or might limit our use of this data. Our ability to either collect or use data could be restricted by new laws or regulations, changes in technology, operating system restrictions, requests to discontinue using certain data, restrictions imposed by advertisers and publishers, industry standards or consumer choice. Interruptions, failures or defects in our data collection, analysis and storage systems could also limit our ability to aggregate and analyze data from our advertisers' advertising campaigns.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We are highly dependent on our search services agreement with Microsoft Online Inc. ("Microsoft"), which covers substantially all of our search business and has a term from January 1, 2015 until December 31, 2017, which upon mutual agreement may be renewed until December 31, 2018. In 2016, our search services agreement with Microsoft accounted for 49% of our revenues.

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

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

In 2016, the top ten publishers distributing our search properties accounted for approximately 45% of our revenues, of which the top five publishers represented approximately 40% of our revenues (the two largest representing 19% and 10%, and the next three representing 5%, 4% and 2% of our revenues). There can be no assurance that these existing publishers will continue to distribute our search properties or continue utilizing the revenue-generating monetization services at the levels they did in the past or at all. The loss of a substantial portion of our relationships with these publishers, or a substantial reduction in their level of activity, could cause a material decline in our revenues and profitability.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

As we provide our services through the Internet, we are reliant on our ability to work with the different Internet browsers. The Internet browser market is extremely concentrated with Google's Chrome, Microsoft's Internet Explorer and Mozilla's Firefox, accounting for over 83% of the desktop browser market in the aggregate as of December 2016, and Google's Chrome alone accounting for over 63%, based on StatCounter reports. In June 2014, Google restricted the ability to install multi-purpose extensions onto its Chrome Internet browser. As most of our products and services offered such multi-purpose extensions at that time, this policy shift adversely affected our business. Since then, Google continued to further change and update its policies and technology in general, and specifically those relating to Chrome. Each such change further limits and constrains our ability to offer or change search properties. The operating system market is very concentrated as well, with Microsoft Windows dominating over 83% of the market as of December 2016, and Apple operating systems accounting for 11% of that market, based on StatCounter reports. In addition, during 2015, Microsoft announced changes to its browser modifier detection criteria and issued a new operating system (Windows 10), which includes a new default Internet browser (Edge). Some of these changes limited our ability to maintain our users' browser settings. If Microsoft, Google, Apple or other companies that provide Internet browsers, operating systems or other underlying platforms, effectively further restrict, discourage or otherwise hamper companies, like us, from offering or changing search properties, this would continue to cause a material adverse effect on our revenue and our financial results.

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

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

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

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

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

Risks related to our Financial and Corporate Structure

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

As of December 31, 2016, we had convertible bonds outstanding having an aggregate principal amount of approximately ILS 114.8 million (then equivalent to approximately \$29.9 million). In the event that we fail to comply with the terms or covenants of our convertible bonds and cannot obtain a waiver of noncompliance, we may be required to immediately repay all of our outstanding indebtedness and the bond trustee may be entitled to exercise the remedies available under the applicable agreement and applicable law.

In addition, if Undertone fails to comply with the terms and/or covenants of its \$42.5 million secured loan agreement, Undertone may be required to immediately repay all of its outstanding indebtedness under the loan agreement.

There is no assurance that we will be able to generate the cash necessary to fund the scheduled payments from operations or from additional equity or debt financings or other funding sources or that our operating results will enable us to meet our covenants and financial ratios as of the end of each fiscal quarter. Our inability to comply with the repayment schedules, covenants or financial ratios under our debt instruments could result in a material adverse effect on us.

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

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

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

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

We depend on the capabilities and experience, and the continued services, of our senior management. The loss of the services of members of our senior management could create a gap in management and could result in the loss of expertise necessary for us to execute our business strategy and thereby adversely affect our business. On September 27, 2016, we announced that Josef Mandelbaum, serving as our Chief Executive Officer since July 2010, will be leaving his position after a transition period of up to several months. On January 23, 2017, our board of directors appointed Mr. Doron Gerstel as Chief Executive Officer, effective April 2, 2017. From January 23, 2017 to April 1, 2017, our Chief Financial Officer, Mr. Yacov Kaufman, also serves as interim Chief Executive Officer.

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

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

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

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

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

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

In the last two years, our stock price experienced volatility and our public market capitalization decreased to a value below the net book carrying value of our equity, triggering the need for an assessment more frequently than annually. While no impairment was recorded in 2016, it is possible that another material change could occur in the future. In particular, our Undertone reporting unit is at risk for goodwill impairment based on the volatility of this business and the market within which it competes. See Item 5A. "Operating and Financial Review and Prospects-Operating Results-Critical Accounting Policies and Estimates-Goodwill." We will continue to conduct impairment analyses of our goodwill on an annual basis, unless indicators of possible impairment arise that would cause a triggering event, and we would be required to take additional impairment charges in the future if any recoverability assessments reflect estimated fair values that are less than our recorded values. Further impairment charges with respect to our goodwill would have a material adverse effect on our results of operations and shareholders' equity in future periods.

Several shareholders may be able to control us.

As a result of the ClientConnect Acquisition, several shareholders of Conduit became significant shareholders of Perion, including three shareholders that each beneficially own more than 10% of our outstanding shares. One of these shareholders is currently a member of our board of directors. See Item 7.A for more information. To our knowledge, these shareholders are not party to a voting agreement with respect to our shares. However, should they or other large shareholders decide to act together, they may have the power to control the outcome of matters submitted for the vote of shareholders. In addition, such share ownership may make certain transactions more difficult and result in delaying or preventing a change in control of the company, unless approved by them.

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

The market price for our ordinary shares, as well as the prices of shares of other Internet companies, has been volatile. Between January 2016 and March 2017, our share price has fluctuated from a high of \$2.56 to a low of \$0.94, and the average trading volume has been relatively low. The following factors may cause significant fluctuations in the market price of our ordinary shares:

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

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

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

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

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

At the closing of the ClientConnect Acquisition on January 2, 2014, we issued 54.75 million of our ordinary shares to ClientConnect's shareholders. The ordinary shares were issued pursuant to an exemption from registration under the Securities Act and are not subject to any resale restrictions under U.S. law, except for the volume limitations under Rule 144 applicable to our affiliates. Since January 2, 2016, the resale of such ordinary shares is no longer subject to any lock-up restrictions.

As of March 1, 2017, there were outstanding an aggregate of 11,863,941 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.

As part of the consideration for the acquisition of Grow Mobile, we issued 600,100 ordinary shares in 2014, 342,329 ordinary shares in 2015 and 2,503 ordinary shares in 2016, to the security holders of Grow Mobile. Such shares generally became freely tradable under U.S. law six months following issuance.

On February 10, 2015, as part of the consideration for the acquisition of Make Me Reach, we issued 1,437,510 ordinary shares to the security holders of Make Me Reach and an additional 18,998 ordinary shares to certain employees. On February 17, 2016, we issued to certain former Make Me Reach security holders and to certain employees an additional 288,478 ordinary shares. Such shares are generally not subject to any resale restrictions under U.S. law.

Pursuant to a registration rights undertaking described in Item 10.C "Material Contracts— J.P. Morgan Registration Rights Agreement," we have registered with the Securities and Exchange Commission 5,219,879 of our ordinary shares issued in a private placement in 2015, which may be resold by the holders thereof from time to time.

Finally, our Series L Bonds are convertible into an aggregate of approximately 3.4 million ordinary shares, at a conversion price of ILS 33.605 per share (approximately \$8.74 per share as of December 31, 2016). These shares would be issued pursuant to an exemption from registration under the Securities Act and will not be subject to any resale restrictions under U.S. law, 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 ILS. Inflation in Israel may have the effect of increasing the U.S. dollar cost of our operations in Israel. Further, whenever the U.S. dollar declines in value in relation to the ILS, it will become more expensive for us to fund our operations in Israel. A revaluation of one percent of the ILS as compared to the U.S. dollar could impact our income before taxes by approximately \$0.3 million. The exchange rate of the U.S. dollar to the ILS has been volatile in the past, increasing by approximately 12% in 2014, increasing by less than 1% in 2015, and decreasing by approximately 1% in 2016. As of December 31, 2016, we had a foreign currency net liability of approximately \$31.1 million (which number includes approximately \$29.8 million in long-term ILS denominated convertible bonds that we issued in Israel in September 2014), and our total foreign exchange loss was approximately \$0.8 million for the year ended December 31, 2016. To assist us in assessing whether or not, and how to, hedge risks associated with fluctuations in currency exchange rates, we have contracted a consulting firm proficient in this area, and are generally implementing their proposals. However, due to market conditions, volatility and other factors, we do not always implement our consultant's proposals in full and our consultant's proposals do not always prove to be effective and may even prove harmful. We may incur losses from unfavorable fluctuations in foreign currency exchange rates. See "Item 11 Quantitative and Qualitative Disclosure of Market Risks" for further discussion of the effects of exchange rate fluctuations on earnings.

We do not intend to pay cash dividends.

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

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

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

As an Israeli public company, traded on NASDAQ, we incur significant legal, accounting and other expenses. We incur costs associated with our public company reporting requirements as well as costs associated with corporate governance and public disclosure requirements, including requirements under the Sarbanes-Oxley Act of 2002, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, the Listing Rules of the NASDAQ Stock Market, regulations of the SEC, the provisions of the Israeli Securities Law that apply to dual listed companies (companies that are listed on the Tel Aviv Stock Exchange ("TASE") and another recognized stock exchange located outside of Israel) and the provisions of the Israeli Companies Law 5759-1999 (the "Companies Law") that apply to us. For example, as a public company, we have created additional board committees and elected two external directors pursuant to the Companies Law. We have also contracted an internal auditor and a consultant for implementation of and compliance with the requirements under the Sarbanes-Oxley Act. Section 404 of the Sarbanes-Oxley Act requires an annual assessment by our management of our internal control over financial reporting of the effectiveness of these controls as of year-end. In connection with our efforts to comply with Section 404 and the other applicable provisions of the Sarbanes-Oxley Act, our management and other personnel devote a substantial amount of time, and we have hired, and may need to hire, additional accounting and financial staff to assure that we comply with these requirements. The additional management attention and costs relating to compliance with the foregoing requirements could adversely affect our financial results. See "Item 5 Operating and Financial Review and Prospects — Overview — General and Administrative Expenses" for a discussion of our increased expenses as a result of being a public company.

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

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

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

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

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

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

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

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

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

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

Our listing on the NASDAQ Stock Market is contingent on our compliance with the NASDAQ's conditions for continued listing. One of such conditions is maintaining a bid price for our ordinary shares of least \$1.00 per share. In November 2016, the price of our ordinary shares temporarily dropped below \$1.00 per share. If our ordinary shares trade for 30 consecutive business days below the \$1.00 minimum closing bid price requirement, NASDAQ will send us a deficiency notice giving us 180 calendar days to regain compliance, such as by effecting a reverse share split. There is no assurance that our share price will not fall below \$1.00 per share or, if it does, that we will be able to regain compliance in a timely manner. If our ordinary shares are delisted from NASDAQ, their liquidity and price may decline.

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

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

Risks related to our Technological Environment

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks related to Regulatory Changes

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks Related to our Intellectual Property

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

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

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

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

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

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

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

On December 22, 2015, Adtile Technologies Inc. filed a lawsuit against Perion and Undertone alleging, *inter alia*, that Undertone's UMotion advertising format, "hand phone" image, and use of the full tilt library infringes on its intellectual property. On February 3, 2016, Adtile Technologies Inc. filed a motion for preliminary injunction to, *inter alia*, prevent Undertone from creating or selling motion-activated advertisements. On June 23, 2016, the court denied Adtile's motion for a preliminary injunction. On June 24, 2016, the court (i) granted Perion's motion to dismiss and (ii) granted Undertone's motion to stay the action and compel arbitration. 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 use certain "open source" software tools that may be subject to intellectual property infringement claims or that may subject our derivative works or products to unintended consequences, possibly impairing our product development plans, interfering with our ability to support our clients or requiring us to allow access to the source code of our products or necessitating that we pay licensing fees.

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

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

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

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

Risks Related to the Geographical Location of our Operations

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

Our revenues have been concentrated within the North American market, accounting for approximately 81% of our revenues for 2016. A significant reduction in the revenues generated in such market, whether as a result of a recession that causes a reduction in advertising expenditures generally or otherwise, which causes a decrease in our North American revenues, could have a material adverse effect on our results of operations.

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

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

- potential loss of proprietary information due to piracy, misappropriation or laws that may be less protective of our intellectual property rights than those of the United States;
- costs and delays associated with translating and supporting our products in multiple languages;
- foreign exchange rate fluctuations and economic instability, such as higher interest rates and inflation, which could make our products more expensive in those countries;
- costs of compliance with a variety of laws and regulations;
- restrictive governmental actions such as trade restrictions;
- limitations on the transfer and repatriation of funds and foreign currency exchange restrictions;
- compliance with different consumer and data protection laws and restrictions on pricing or discounts;
- lower levels of adoption or use of the Internet and other technologies vital to our business and the lack of appropriate infrastructure to support widespread Internet usage;
- lower levels of consumer spending on a per capita basis and fewer opportunities for growth in certain foreign market segments compared to the United States;
- lower levels of credit card usage and increased payment risk;
- changes in domestic and international tax regulations; and
- geopolitical events, including war and terrorism.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Non-U.S. corporations generally may be characterized as a passive foreign investment company ("PFIC") for any taxable year, if, after applying certain look through rules, either (1) 75% or more of such company's gross income is passive income, or (2) at least 50% of the average value of all such company's assets (determined on a quarterly basis) are held for the production of, or produce, passive income.

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

We believe that in 2016 we were not a PFIC. Whether we are a PFIC is based upon certain factual matters such as the valuation of our assets. In calculating the value of our assets, we value our total assets, in part, based on our total market capitalization. We believe this valuation approach is reasonable. There is no assurance whether the IRS will challenge our valuations. If the IRS were to successfully challenge such valuations, we may potentially be classified as a PFIC for the 2016 taxable year or prior taxable years. Furthermore, there can be no assurance that we will not become a PFIC in the future. See a discussion of our PFIC status in Item 10.E under "U.S. Federal Income Tax Considerations – Passive Foreign Investment Company Considerations."

ITEM 4. INFORMATION ON THE COMPANY

A. HISTORY AND DEVELOPMENT OF THE COMPANY

Our History

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

We completed the initial public offering of our ordinary shares in the United States on February 3, 2006.

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

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

On November 30, 2012, we completed the purchase of SweetIM Ltd., a Belize company that wholly owns SweetIM Technologies Ltd., an Israeli company. Both companies were dissolved during 2015.

On January 2, 2014, we completed the purchase of ClientConnect Ltd., an Israeli company that wholly owns ClientConnect Inc., a Delaware corporation, and ClientConnect B.V., a Netherlands company.

On July 15, 2014, we completed the purchase of Grow Mobile, Inc., a Delaware corporation.

On February 10, 2015, we completed the purchase of Make Me Reach SAS, a French company.

On November 30, 2015, we completed the purchase of Interactive Holding Corp., a Delaware corporation, and its subsidiaries (collectively referred to as "Undertone"). See "Recent Developments".

Principal Capital Expenditures

In 2014, capital expenditures consisted of \$10.9 million for leasehold improvements and furnishing related to our new headquarters office in Holon, as well as investments in computer hardware and software. In 2015 and 2016, capital expenditures consisted of \$2.0 million and \$1.5 million, respectively, mainly from the acquisition of computer systems and software applications.

In 2017, we expect to continue our growth strategy of acquiring products and businesses, in addition to organic capital investments. Our organic investments are expected to consist primarily of acquiring computer hardware, software, peripheral equipment and installation, all of which are expected to be financed by our existing resources. We currently expect that outside of possible acquisitions of products and companies, our capital expenditures will be approximately at the same level as in 2016. To date, we have financed our general capital expenditures with cash generated from operations and debt and equity financings. To the extent we acquire new products and businesses, these acquisitions may be financed by any of, or a combination of, cash generated from operations, or issuances of equity or debt securities.

Recent Developments

Undertone Acquisition

On November 30, 2015, we executed an Agreement and Plan of Merger (the "Merger Agreement") according to which we completed the acquisition of Interactive Holding Corp., a Delaware corporation, and its subsidiaries (collectively referred to as "Undertone") for a final purchase price of \$119.8 million pursuant to an amendment to the Merger Agreement described below. Total consideration was comprised of \$89.1 million paid in cash at closing, \$3.0 million to be paid in installments over the period ending September 2017, for which a liability of \$2.8 million was recorded at fair value (\$1.0 million was paid in 2016); \$5.9 million deferred payments primarily excess tax advances (out of which \$5.3 million was paid in 2016), a \$20.0 million deferred consideration payment, bearing 10% annual interest, to be paid in November 2020, and \$16.0 million retained as a holdback to cover potential claims until May 2017. On August 2, 2016, we executed an amendment to the Merger Agreement, pursuant to which we paid \$22.0 million and eliminated approximately \$36.0 million of obligations (\$35.5 million at fair value). Under said amendment, we reserved our right to claim indemnification only for certain material potential claims until May 2017.

Concurrently with the closing, Undertone entered into a new secured credit agreement with its existing lenders for \$50.0 million, due in quarterly installments from March 2016 to November 2019. On March 4, 2016, Undertone entered into an amendment to the secured credit agreement. The amendment to the credit agreement adds a \$10.0 million revolving loan facility. Additionally, the amendment postpones the commencement date of a few of Undertone's undertakings and covenants and increases Undertone's ability to invest in some of its subsidiaries. In addition, on May 8, 2016, Undertone entered into a second amendment to the secured credit agreement further postponing the commencement of some of Undertone's undertakings. Furthermore, on October 7, 2016, Undertone entered into a third amendment reducing the revolving loan facility amount to \$2.5 million and amending financial covenants. As of December 31, 2016, the unpaid balance of the secured credit facility was \$42.5 million.

The credit agreement is not guaranteed by Perion, but it is secured by a pledge on Perion's indemnification rights under the Undertone acquisition agreement. In connection with the acquisition, 1,131,000 options to purchase ordinary shares were granted to employees of Undertone and remain outstanding as of March 1, 2017, and a warrant to purchase 200,000 ordinary shares to a third-party vendor that provides development services to Undertone.

During July 2016, Mr. Corey Ferengul stepped down as Chief Executive Officer of Undertone. After an interim period in which our former Chief Executive Officer also served as Undertone's Chief Executive Officer, on October 2016, our Chief Strategy and Development Officer, Mr. Robert Schwartz was appointed as Undertone's President.

Private Placement

On December 3, 2015, we completed a private placement of 4,436,898 ordinary shares for gross proceeds of \$10.125 million pursuant to a securities purchase agreement with J.P. Morgan Investment Management Inc., as investment advisor to the National Council for Social Security Fund and 522 Fifth Avenue Fund L.P. (collectively referred to as the "Investors"). The purchase price per share was \$2.282, which was the average closing price of an ordinary share on the Nasdaq Global Select Market for the 30 trading days ending on December 1, 2015. According to a one-time price adjustment mechanism in the securities purchase agreement, on September 1, 2016, the per share purchase price was adjusted downward by 15%, and we issued to the Investors 782,981 additional ordinary shares for no additional consideration.

In connection with the private placement, we entered into a registration rights agreement with the Investors pursuant to which we granted to the Investors certain registration rights related to the ordinary shares issued in the private placement. The Investors' shares were registered for resale on a shelf registration statement on Form F-3 on March 31, 2016. We also agreed to other customary obligations regarding registration, including indemnification and maintenance of the applicable registration statement.

Bank Leumi credit facility

On November 22, 2015, we borrowed \$19.9 million under a new credit facility from LeumiTech, the technology banking arm of Bank Leumi le-Israel B.M. The credit facility was secured by a lien on the accounts receivable of ClientConnect Ltd., an Israeli subsidiary, from its current and future business clients and was guaranteed by Perion. The credit facility matured and was repaid in November 2016, and we have secured a new credit facility of \$7 million from LeumiTech, under similar terms. As of December 31, 2016, this credit facility was fully drawn down, and it was subsequently fully repaid during January 2017.

Growmobile Engagement Sale

On March 17, 2016, we decided to discontinue the operations of the engagement product of Growmobile business ("GME") and to redeploy certain parts of the mobile marketing platform so that it will no longer function as an independent business. On July 25, 2016, we executed an Asset Purchase Agreement, pursuant to which we sold the GME business operation, including the intellectual property, know-how and technology primarily related to GME, for \$1.75 million.

Chief Executive Officer Replacement

On September 27, 2016, we announced that Josef Mandelbaum, serving as our Chief Executive Officer since July 2010, will be leaving his position after a transition period of up to several months. On January 23, 2017, our board of directors appointed Mr. Doron Gerstel as Chief Executive Officer, effective April 2, 2017. From January 23, 2017 to April 1, 2017, our Chief Financial Officer, Mr. Yacov Kaufman, also serves as interim Chief Executive Officer.

B. BUSINESS OVERVIEW

General

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

Overview

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

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

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

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

Our search related products enable end users to, among other things, replace their search assets with ours, where users may conduct searches or follow links to advertisements that advertisers may display. They also allow publishers the ability to set up syndicated searches on their individual websites and to monetize their users' other search assets. In addition, we are still generating a small portion of our revenues through our toolbar platform, which allows publishers to create, implement and distribute web browser toolbars, as well as through our consumer products; Smilebox, a leading photo sharing and social expression product, and IncrediMail, a unified messaging application that enables consumers to manage multiple email accounts in one place with an easy-to-use interface and extensive personalization features. Currently these products account for only 5% of our revenues and are profitable. Our consumer products are currently available in seven languages in addition to English. Prices and license fees for our premium products range between \$5 and \$50, varying based on market, length of license period and whether the products are offered together.

Markets

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

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

In the past, we generated the majority of our revenues from services agreements with our search partners. Search-generated revenues accounted for 85% and 78% of our revenues in 2014 and 2015, respectively. In 2016, as we shifted our focus to advertising outside of search, search-generated revenues accounted for 50% of our revenues, and we expect this percentage to continue to decline in the future as the other revues grow. Through our search technology, including syndication, we offer end users the ability to search the Internet via easily embedded search boxes powered by premium search companies, including Microsoft, Google and Yahoo, and depending on the search partner powering the search and the location in which the search was initiated, we receive either a fixed price, pay-per-search fee or portion of the revenues generated by these companies through the search process.

We are currently one of the largest redistributors of search monetization in the United States and while we generate substantially all our search revenues through our relationship with Microsoft Bing, we have agreements with the three major search engine companies in the United States. Our agreement with Microsoft is for a three-year term, from January 1, 2015 through December 31, 2017, and upon mutual agreement, the agreement may be renewed for an additional 12-month period, until the end of 2018. In the past, the fees payable by Microsoft under the Microsoft Agreement were payable based on either a fixed price, pay-per-search basis that is tied to the number of searches conducted by end users, or in certain instances on a share of the revenue generated as a result of searches conducted by end users who utilize the search engine that appears on toolbars created by publishers through our platform or through other search related products. The fees payable by Microsoft have varied annually over the term of the agreement, decreasing significantly in 2013 and 2014, as compared to 2011 and 2012. As of 2015, the fees payable by Microsoft under our 2015 agreement with Microsoft are payable based on a share of the revenue generated as a result of searches conducted by end users who utilize the search engine that appears on our product, the publisher's product, search assets and websites.

While substantially inactive, we entered into an agreement with Google, effective as of July 1, 2015, and which will expire on April 30, 2017. We also have an agreement with Yahoo, which is in effect until July 18, 2017.

Strategy

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

The key components to our advertising solutions are:

Creative Ad Units

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

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

Quality Media

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

Proprietary Technology Platform

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

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

Service and Support

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

Innovation

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

Our innovation team focuses on three types of innovations:

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

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

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

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

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

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

Products under Development

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

Breakdown of Revenues

Our search monetization solutions, advertising and other, are distributed and sold throughout the world in more than 100 countries. The following table shows the revenues, presented in our statement of operations, generated by territory in the years ended December 31, 2014, 2015 and 2016.

	2014		2015		2016	
	Search and other Revenues	Advertising Revenues	Search and other Revenues	Advertising Revenues	Search and other Revenues	Advertising Revenues
Tier 1 – North America	78%	69%	79%	75%	75%	89%
Tier 2 – Europe	17%	23%	18%	22%	20%	9%
Tier 3 - Other	5%	8%	3%	3%	5%	2%
Total	100%	100%	100%	100%	100%	100%

Intellectual Property

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

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

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

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

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 Undertone business and that compete for finite advertiser/agency budgets and publisher inventory. There are also a large number of niche companies that are competitive with our Undertone business 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, AOL, Google, and Facebook. New entrants and companies that do not currently compete with our Undertone business may compete in the future given the relatively low barriers to entry in the industry.

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

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

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

Government Regulation

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

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

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

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

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

C. ORGANIZATIONAL STRUCTURE

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

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

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

D. PROPERTY, PLANTS AND EQUIPMENT

Our headquarters are located in Holon, Israel. We lease approximately 101,500 square feet, out of which we currently sublease approximately 33,820 square feet. The lease expires in 2024, with an option to extend for two additional two-year periods. Annual cost is approximately \$1.7 million.

We lease approximately 88,000 square feet in various locations in the United States. Our primary locations, and their principal terms, are as follows:

	Square feet	Annual Rent for 2017 in US\$ in thousands	Lease expires on (not including options)
New York, New York	51,182	\$ 2,511	2021
San Francisco, California	13,452	\$ 836	2022
Redmond, Washington	8,300	\$ 197	2021
Chicago, Illinois	7,943	\$ 152	2018

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

	Square feet	Annual Rent for 2017 in US\$ in thousands	Lease expires on (not including options)
London, England	4,361	\$ 134	2022
Paris, France	5,000	\$ 183	2017

We recently signed a lease for a new location in Paris, replacing the location that was set to expire. The new location has 6,200 square feet, has annual rent of \$0.4 million and expires in 2019. We believe that our current facilities are more than adequate to meet our current needs, and we believe that suitable additional space will be available as needed to accommodate ongoing operations and any such growth.

We own approximately 500 servers located in Israel, Europe and the United States. We also rent the services of approximately 400 additional servers located around the world, approximately 330 of which are rented mainly through Amazon Web Services and approximately 70 of which are rented through Rackspace Hosting located in the United States. Our servers include mainly web servers, application servers, data collection servers, data storage servers, data processing servers, mail servers and database servers. Bezeq and Cellcom Israel Ltd. provide our Internet and related telecommunications services in Israel, including hosting and co-location facilities, needed to operate our websites. Bezeq is Israel's largest provider of such services and is a member of Bezeq Group, Israel's incumbent national telecommunications provider. In the United States CenturyLink, and in Europe Evoswitch, are our co-location providers. Our Internet Service Providers ("ISPs") are CenturyLink, NTT Communication, Level3 Communication and Colt. Bezeq and Cellcom are the two largest providers of such services in Israel. All other ISPs are tier-1 worldwide providers in this area. For our Undertone business, (1) Rackspace Hosting provides our Internet and related telecommunications services in Dallas, Texas and Virginia data centers in the United States, and (2) Internap provides Internet and related telecommunication services to our co-located data centers in Europe and the United States which are needed to operate our websites. Rackspace Hosting, Amazon Web Services and Internap are some of the largest providers of such services in the United States. All co-location and telecommunication services are provided through standard purchase orders and invoices. We add servers and expand our systems located at their facilities as our operations require. We believe there are many alternative providers of these services both within and outside of Israel.

ITEM 4.A UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

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

A. OPERATING RESULTS

General

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

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

Our search monetization product served 383 million average monthly queries in 2016, with 185 million being generated in United States. This level of activity makes us one of the larger search service providers in the U.S. market.

This business declined significantly since its high in 2014, due to industry changes and as a result of our significantly reducing investment in acquiring new customers and being more selective in choosing our partners since the second half of 2014. We reduced this investment as a result of two strategic decisions. The first was to become more selective in the companies we are willing to partner with, focusing on those that promote a more positive user experience, in line with our strategy, and those that can and do comply with the standards and policies introduced by the search engine companies, Google and Microsoft Bing. The second strategic decision, in order to reduce our financial risk, was to discontinue up-front, payment-per-install relationships, a method contingent on our ability to estimate the future revenues and that suffered from the lack of visibility inherent in an ever changing environment. In its stead, we instituted relationships based on sharing the revenue generated by the end users as the revenue is generated. While this new method did reduce our profit margins somewhat, it resolved the risk of paying up-front marketing costs that may not have a positive return.

As a result of the regulations instituted by the search engine, browser and operating system companies on the desktop and the increasing trend away from desktop downloadable software and towards mobile platforms, which inherently have very much reduced opportunities for monetization through the redistribution of search services, we are unable to grow our desktop monetization business. And while it continues to generate significant profits and cash flow, we currently expect it to decline slowly over time.

We therefore have been focusing our growth efforts in delivering high-quality advertising solutions to brands and publishers through Undertone.

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

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

Revenues

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

	Year Ended December 31,		
	2014	2015	2016
Search and other	\$ 343,655	\$ 188,897	\$ 172,683
Advertising	45,076	32,053	140,111
Total Revenues	\$ 388,731	\$ 220,950	\$ 312,794

In 2015, revenues decreased by 43% compared to 2014, primarily as a result of our decision to dramatically reduce customer acquisition costs starting from the third quarter of 2014. This decision reduced the tail of revenues going into 2015, as well as reduced ongoing revenues from the revenue share model. In 2016, revenues increased by 42% compared to 2015, primarily due to the acquisition of Undertone in the fourth quarter of 2015.

Cost of Revenues

Cost of revenues consists primarily of salaries and related expenses, license fees, amortization of acquired technology and payments for content and server maintenance. In 2016 cost of revenues increased primarily due to the costs associated with Undertone's activity since December 2015. The number of employees included in cost of revenues in 2014, 2015 and 2016 were 22, 20 and 17, respectively.

Customer Acquisition Costs and Media Buy

Our customer acquisition costs consist primarily of payments to publishers and developers who distribute our search properties together with their products, as well as the cost of distributing our own products. Media buy costs consist mainly of the costs of advertising inventory incurred to deliver ads. Customer acquisition costs are primarily based on fixed fee arrangements and on revenue share agreements with our traffic sources. As a result of changes in the marketplace, and our being more selective regarding the partners we work with, in the third quarter of 2014 we significantly reduced our investment in customer acquisition. In order to mitigate some of the risk inherent in the lack of visibility regarding the generation of future revenues by the users of our partners' software, since the beginning of 2015 we have sought to work with our partners on revenue share agreements instead of fixed fee arrangements. This reduction was partially offset by an increase in media buy costs from Undertone activity since its acquisition. Customer acquisition and media buy costs were \$174.6 million, \$91.2 million and \$140.2 million in 2014, 2015 and 2016, respectively. As a percentage of revenues, these expenses have declined, as in the Undertone model this expense is relatively lower. In our search business, we continue to work exclusively by the sharing of future revenues, rather than pay an up-front fixed fee to our partner software developers. Therefore, with the trailing off of revenues coming from the old model of prepaying for installs, revenues that were without expense in subsequent periods, the percentage of revenues invested in and generated through customer acquisition will continue to increase in 2017. In addition to the media buy costs paid by Undertone to its publishers we expect customer acquisition and media buy costs to increase nominally and as a percentage of revenues in 2017.

Research and Development Expenses

Our research and development expenses consist primarily of salaries and other personnel-related expenses for employees primarily engaged in research and development activities, allocated facilities costs, subcontractors and consulting fees. Our research and development expenditures in 2016 increased compared to the prior year, primarily as a result of the research and development activities in Undertone since its acquisition in December 2015.

We continue to invest development effort in our search-based business, adapting and maintaining compatibility with the ever-changing software landscape in which we operate. This is in addition to the ongoing development effort in our high impact ad formats and technologies with the acquisitions of Make Me Reach and Undertone. However, we expect research and development expenses to decrease in 2017 as we focus more on Undertone's offering.

The number of employees in research and development were 187, 168 and 136 at the end of 2014, 2015 and 2016, respectively.

Selling and Marketing Expenses

Our selling and marketing expenses consist primarily of salaries and other personnel-related expenses for employees primarily engaged in marketing activities, allocated facilities costs, as well as other outsourced marketing activity. This expenditure and the number of employees involved in this activity has increased and is expected to continue to increase as the Company and its various activities shift and the increasing emphasis on selling and marketing its products to grow the business, as well as a result of the Undertone acquisition. The number of employees in sales and marketing was 104, 262 and 272 at the end of 2014, 2015 and 2016, respectively.

General and Administrative Expenses ("G&A")

Our general and administrative expenses consist primarily of salaries and other personnel-related expenses for executive and administrative personnel, allocated facilities costs, professional fees and other general corporate expenses. G&A expenses are reflective of an independent public company, with all of its requisite costs, managing organic activity as well as being an active acquirer of other businesses. In 2015, G&A as a percentage of revenues increased significantly, primarily as result of the substantial Undertone acquisition and the costs associated with it. However, in 2016, while these expenses increased nominally, they decreased as a percentage of sales as we leveraged our existing overhead in growing the business. We expect these expenses to remain stable as a percentage of revenues going forward. The number of G&A employees was 98, 128 and 110 at the end of 2014, 2015 and 2016, respectively.

Depreciation and amortization

Depreciation and amortization consist primarily of depreciation of our property and equipment and the amortization of our intangible assets as a result of our acquisitions. In 2016, this number increased significantly due to the amortization of the acquired intangible assets from the Undertone acquisition in December 2015.

Restructuring Charges

In 2014, we incurred restructuring charges of \$4.0 million due to the restructuring of our search monetization business, including a head count reduction as well as other cost saving measures, such as the consolidation of our Israeli offices from three floors to two in order to sublease the third floor.

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

Impairment, net of change in fair value of contingent consideration

We determined that certain indicators of potential impairment that required an interim goodwill impairment analysis for our reporting units existed in 2015. These indicators included a decrease in our share price and lower than expected sales and cash flow, as well as managerial decisions to abandon certain R&D projects. Based on our goodwill assessment for the search monetization reporting unit, we determined that the carrying amount of the reporting units exceeds its fair value resulting in an impairment of \$70.9 million. We will continue to monitor our reporting units to determine whether events and changes in circumstances, such as significant adverse changes in business climate or operating results, further significant decline in our market capitalization, changes in management's business strategy or changes of management's cash flows projections, warrant further impairment testing. In addition, we performed an impairment review of several intangible assets that were recognized in connection with the Perion acquisition, which resulted in an impairment of \$8.5 million. The impairment charges were measured as the difference between the carrying amounts of those intangible assets and their fair values.

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

Income Tax Expense

A significant portion of our income is taxed in Israel and, as a result of the Undertone acquisition on November 30, 2015, in the United States. The standard corporate tax rate in Israel was 26.5% in 2014 and 2015 and 25.0% in 2016. For our Israeli operations we have elected to implement a tax incentive program pursuant to a 2011 Israeli tax reform, referred to as a "Preferred Enterprise," according to which a reduced tax rate of 16.0% is applied to our preferred income in 2015 and 2016. With respect to U.S. tax, we expect to utilize cumulated losses we have from prior U.S. acquisitions. The federal statutory income tax rate in the United States is 35.0%. 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, revenues and expenses, and related disclosure of contingent assets and liabilities. We evaluate these estimates on an on-going basis. We base our estimates on our historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying amount values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Under U.S. GAAP, when more than one accounting method or policy or its application is generally accepted, our management selects the accounting method or policy that it believes to be most appropriate in the specific circumstances. Our management considers some of these accounting policies to be critical.

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

Stock-Based Compensation

We account for share-based payment awards made to employees and directors in accordance with ASC 718, "Compensation – Stock Compensation", which requires the measurement and recognition of compensation expense based on estimated fair values. Determining the fair value of stock-based awards at the grant date requires the exercise of judgment, as well as the determination of the amount of stock-based awards that are expected to be forfeited. 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.

Total stock-based compensation expense recorded during 2016 was \$6.8 million, of which \$0.2 million was included in cost of revenues, \$0.7 million in research and development costs, \$1.9 million in selling and marketing expenses, and \$4.0 million in general and administrative expenses.

As of December 31, 2016, the maximum total compensation cost related to options and restricted stock units ("RSUs"), granted to employees and directors not yet recognized amounted to \$1.5 million. This cost is expected to be recognized over a weighted average period of 1.31 years.

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

Taxes on Income

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

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

Accounting for tax positions requires judgments, including estimating reserves for potential uncertainties. We also assess our ability to utilize tax attributes, including those in the form of carry forwards for which the benefits have already been reflected in the financial statements. We record valuation allowances for deferred tax assets that we believe are not more likely than not to be realized in future periods. While we believe the resulting tax balances as of December 31, 2016 are appropriately accounted for, the ultimate outcome of such matters could result in favorable or unfavorable adjustments to our consolidated financial statements and such adjustments could be material. See Note 14 of the Financial Statements for further information regarding income taxes. We have filed or are in the process of filing local and foreign tax returns that are subject to audit by the respective tax authorities. The amount of income tax we pay is subject to ongoing audits by the tax authorities, which often result in proposed assessments. We believe that we adequately provided for any reasonably foreseeable outcomes related to tax audits and settlement. However, our future results may include favorable or unfavorable adjustments to our estimated tax liabilities in the period the assessments are made or resolved, audits are closed or when statutes of limitation on potential assessments expire.

Business Combinations

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

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

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

Goodwill

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

During 2015 and 2016, we determined that certain indicators of potential impairment existed, which triggered goodwill impairment analyses of our reporting units. These indicators included a decrease in our share price and lower than expected sales and cash flow, as well as management decisions to abandon certain R&D projects. In 2015, we incurred impairment charges of \$70.9 million, related to goodwill associated with the monetization reporting unit and \$16.2 million to the Growmobile reporting unit (included as a loss from discontinued operations). In 2016, we determined the fair value of each of our two reporting units using the income approach, which utilizes a discounted cash flow model, as we believed that this approach best approximated the reporting unit's fair value at the time. Judgments and assumptions related to revenue, operating income, future short-term and long-term growth rates, weighted average cost of capital, interest, capital expenditures, cash flows, and market conditions are inherent in developing the discounted cash flow model. We concluded that the fair value of our reporting units exceeded their carrying amount, so no goodwill was determined to be impaired in 2016. If the foregoing judgments or assumptions change in the future, we may be required to record impairment charges for our goodwill.

We performed a sensitivity analysis for the two key assumptions used in our annual goodwill impairment test and determined that an increase of 1% in the estimated weighted average cost of capital or a shortfall of our future profitability projections below our current projections would result in the estimated fair value of our Undertone reporting unit falling below its carrying value. At December 31, 2016, the fair value of this reporting unit exceeded its carrying value by 8%. We believe that this reporting unit is at risk for goodwill impairment based on the volatility of this business and the market within which it competes.

Impairment of Long-Lived Assets

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

Upon determination that the carrying value of a long-lived asset may not be recoverable based upon a comparison of aggregate undiscounted projected future cash flows from the use of the asset or asset group to the carrying amount of the asset, an impairment charge is recorded for the excess of carrying amount over the fair value. We measure fair value using discounted projected future cash flows. We base our fair value estimates on assumptions we believe to be reasonable, but these estimates are unpredictable and inherently uncertain. If these estimates or their related assumptions change in the future, we may be required to record impairment charges for our tangible and intangible long-lived assets subject to amortization. In 2015, we incurred impairment charges of \$8.5 million related to intangible assets associated with our reporting units (out of which \$3.4 million related to our Growmobile reporting unit, which are included as a loss from discontinued operations). In 2014, we incurred impairment charges of \$19.9 million related to intangible assets associated with desktop technologies acquired in the acquisition of Perion that were determined during the process of integration with Perion to be redundant to the technology of ClientConnect. This impairment was also a result of our shifting future growth strategy towards mobile platforms and discontinuing some of the consumer products developed.

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

Derivative and Hedge Accounting

During fiscal 2014, 2015 and 2016, approximately 15%, 18% and 13%, respectively, of our operating expenses, respectively, were denominated in new Israeli shekels ("ILS"). In order to mitigate the potential adverse impact on cash flows resulting from fluctuations in the exchange rate of the ILS, we started to hedge portions of our forecasted expenses with options contracts. The effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income and reclassified into earnings in the same period, or periods, during which the hedged transaction affects earnings. The ineffective portion of a derivative's change in fair value, if any, is recognized in earnings, as well as gains and losses from a derivative's change in fair value that are not designated as hedges are recognized in earnings immediately. We have also entered into a cross currency interest rate SWAP agreement in order to transform cash flow in ILS into USD of interest payments and principal as derived from our convertible debt conditions (see Note 8 and Note 10 of the Financial Statements). The SWAP contracts were not designated as hedging instruments and therefore gains or losses resulting from the change of their fair value are recognized in "financial income, net". We estimate the fair value of such derivative contracts by reference to spot rates quoted in active markets.

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

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

Recent Accounting Standards

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

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

As currently issued and amended, ASC 606 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period, though early adoption is permitted for annual reporting periods beginning after December 15, 2016 using either of two methods: (1) full retrospective application; or (2) modified retrospective application. We are currently evaluating the impact that the new principal versus agent guidance may have on the presentation of our revenue arrangements and the expected impact on our business processes, systems and controls, but have not completed our evaluation. We expect to complete our assessment process during 2017 and adopt the new standard on January 1, 2018. We did not select yet the transition method of the new standard.

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

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, Compensation-Stock Compensation (Topic 718): Improvement to Employee Share-based Payment Accounting (ASU 2016-09), to simplify the accounting for share-based payment transactions, including the income tax consequences, an option to recognize gross share-based compensation expense with actual forfeitures recognized as they occur, as well as certain classifications on the statement of cash flows. This guidance will be effective for the Company in the first quarter of 2017, and early adoption is permitted. We are currently evaluating the effect that this guidance will have on our consolidated financial statements.

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

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

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,		
	2014	2015	2016
Cost of revenues	\$ 10,950	\$ 7,877	\$ 16,515
Customer acquisition costs and media buy	174,575	91,194	140,210
Research and development	37,427	21,692	26,528
Selling and marketing	20,792	22,886	58,572
General and administrative	36,730	31,064	32,916
Depreciation and amortization	21,321	11,422	25,977
Restructuring costs	3,981	1,052	728
Impairment, net of change in fair value of contingent consideration	19,941	72,785	-
Total Costs and Expenses	\$ 325,717	\$ 259,972	\$ 301,446

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

	Year Ended December 31,		
	2014	2015	2016
Revenues:			
Search and other	88%	85%	55%
Advertising	12	15	45
Total revenues	100%	100%	100%
Costs and expenses:			
Cost of revenues	3%	4%	5%
Customer acquisition costs and media buy	45	41	45
Research and development	10	10	8
Selling and marketing	5	10	19
General and administrative	9	14	11
Depreciation and amortization	5	5	8
Restructuring charges	1	-(*)	-(*)
Impairment, net of change in fair value of contingent consideration	5	33	-
Total costs and expenses	84	118	96
Operating income (loss)	16	(18)	4
Financial expenses, net	1	1	3
Income (loss) before taxes on income	15	(19)	1
Income tax expense	3	-(*)	-(*)
Income (loss) from continuing operations	13	(19)	(1)
Loss from discontinuing operations, net	2	12	1
Net income	11%	(31)%	-(*)%

(*) less than 1%

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

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

Search and other revenues. Search and other revenues decreased by 9% in 2016, from \$188.9 million in 2015, to \$172.7 million in 2016. This decrease was primarily a result of our decision to dramatically reduce customer acquisition costs starting from the third quarter of 2014 and subsequently move from a pay per install model to a revenue share model beginning the first quarter of 2015. As a result, the revenues from the previous pay per install model, which have no costs associated with them in the then current period, have been decreasing since the third quarter of 2014, and in 2016 were substantially lower than in 2015. As two years have already passed since these changes, the remaining install base is quite small, and while it continues to decline, the impact on 2017 will be smaller. While the cost free revenues from the previous pay per install model declined, we have been successful in offsetting most of that decline with new revenue share search revenues, and as a result our search revenues have declined quarterly only slightly since the second quarter of 2015, and we expect this trend to continue.

Advertising revenues. Advertising revenues increased by 337% in 2016, from \$32.1 million in 2015, to \$140.1 million in 2016. This increase is attributable to the revenues recorded from Undertone's activity, which were recognized only since the acquisition date in late 2015. We expect advertising revenues to increase further in 2017 as compared to 2016, further diversifying our revenue sources.

Cost of revenues. Cost of revenues increased by 110%, from \$7.9 million in 2015, to \$16.5 million in 2016. This increase was primarily due to the cost of revenues associated to the Undertone operation, mainly in hosting expenses. Looking forward, we expect cost of revenues as a percentage of revenues to remain at its current level.

Customer acquisition costs ("CAC") and media buy. CAC and media buy increased by 54%, from \$91.2 million in 2015, to \$140.2 million in 2016, primarily due to the nominal increase in the media buy costs associated with the Undertone revenues after the acquisition. CAC and media buy increased from 41% of revenues in 2015 to 45% of revenues in 2016, primarily due to our transitioning to the current search revenue-share model, replacing the search revenues that were without expense in 2015, and have substantially decreased since then and continue to decrease.

Research and development expenses ("R&D"). R&D increased by 22%, from \$21.7 million in 2015, to \$26.5 million in 2016. The increase was primarily associated with the expenses of our Undertone operation for a full year.

Selling and marketing expenses ("S&M"). S&M expenses increased by or 156%, from \$22.9 million in 2015, to \$58.6 million in 2016. The nominal increase was primarily as a result of consolidating our Undertone operation. The increase in S&M as a percentage of revenues is due to the Undertone business where S&M activity is much more substantial.

General and administrative expenses ("G&A"). G&A increased by 6%, from \$31.1 million in 2015, to \$32.9 million in 2016. The increase is primarily associated with the inclusion our Undertone operation for a full year, partially offset by a decrease of \$4.6 million associated with one-time acquisition costs in 2015; as a result, G&A expenses as a percentage of sales decreased. We expect G&A expenses to continue to be stable, and possibly decline, in 2017.

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

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

Impairment, net of change in fair value of contingent consideration. In 2015 we determined that certain indicators of potential impairment that required an interim goodwill impairment analysis for our reporting units existed in 2015. These indicators included a decrease in our share price and lower than expected sales and cash flow, as well as managerial decisions to abandon certain R&D projects. Based on our goodwill assessment for the search monetization reporting unit, we determined that the carrying amount of the reporting unit exceeds its fair value amount, as a result an impairment of \$70.9 million was recorded. We will continue to monitor our reporting units to determine whether events and changes in circumstances, such as significant adverse changes in business climate or operating results, further significant decline in our market capitalization, changes in management's business strategy or changes of management's cash flows projections, warrant further impairment testing.

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

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

No impairment charges were recorded in 2016.

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

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

Net loss from discontinued operations

In March 2016, we decided to discontinue the mobile self-serve side of our business and put up for sale our Growmobile Engagement business. As a result, we classified these operations as discontinued operations reported separately for all periods presented. On July 25, 2016, the Company sold the mobile engage business, including the intellectual property, know-how and technology, for total consideration of \$1.75 million (see Note 2 of the Financials Statements).

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

Revenues. Revenues decreased by 43%, from \$388.7 million in 2014, to \$221.0 million in 2015.

Search and other revenues. Search and other revenues decreased by 45% in 2015, from \$343.7 million in 2014 to \$188.9 million in 2015. This decrease was primarily a result of our decision to dramatically reduce customer acquisition costs and becoming more selective in choosing distribution partners starting from the third quarter of 2014. This decision reduced the revenues generated from the previous pay per install revenue model (which have no costs associated with them in the then current period) going into 2015, as compared to 2014, and also reduced ongoing revenues from our new revenue share model.

Advertising revenues. Advertising and other revenues decreased by 29% in 2015, from \$45.1 million in 2014 to \$32.1 million in 2015. This decrease is primarily attributable to these revenues being substantially a side product of our search revenue monetization model and declined together with search as we decided to reduce our investment in customer acquisition. This decrease was partially offset by the revenues recorded from one month of Undertone's activity.

Cost of revenues. Cost of revenues decreased by 28%, from \$10.9 million in 2014 to \$7.9 million in 2015. This decrease was primarily attributable to a decrease of approximately \$2.7 million in our hosting expenses due to the reduction in our search revenue volume.

Customer acquisition costs ("CAC") and media buy costs. CAC and media buying costs decreased by 48%, from \$174.6 million in 2014 to \$91.2 million in 2015. This decrease was a result of our decision to be more selective regarding our partners, coupled with the transition of our agreements from a prepayment per install method in 2014 to paying our partners a portion of the revenues generated as they are generated. In addition, \$16.7 million of CAC associated to search revenues presented on net basis, was deducted directly from revenues in 2015. This reduction was partially offset by the increase in media buy costs of Undertone for the one month since the acquisition.

Research and development expenses ("R&D"). R&D decreased by 42%, from \$37.4 million in 2014 to \$21.7 million in 2015. The decrease was primarily attributable to the restructuring of our search monetization business in November 2014, including a head count reduction as well as other cost saving measures, such as the consolidation of our Israeli offices.

Selling and marketing expenses ("S&M"). S&M increased by 10%, from \$20.8 million in 2014, to \$22.9 million in 2015. This increase was primarily attributable to expenses related to the acquisitions of Grow Mobile, Make Me Reach and Undertone in July 2014, February 2015 and November 2015, respectively, offset by a decrease in expenses resulting from the restructuring of our search monetization business in November 2014.

General and administrative expenses ("G&A"). G&A decreased by or 15%, from \$36.7 million in 2014 to \$31.1 million in 2015. The decrease was primarily attributable to a decrease of \$5.0 million in share based compensation and to the restructuring taken place in November 2014, including a head count reduction as well as other cost saving measures. The decrease is partially offset by an increase associated in the G&A costs of Undertone as a result of the acquisition.

Depreciation and amortization. Depreciation and amortization decreased by 46%, from \$21.3 million in 2014, to \$11.4 million in 2015. The decrease in depreciation and amortization is attributable to a \$9.9 million decrease in amortization of intangible assets, as a result of an impairment of certain intangible assets in the fourth quarter of 2014 and to a lesser extent in 2015, reducing the base for amortization.

Impairment, net of change in fair value of contingent consideration. Based on our goodwill assessment for the search monetization reporting unit in 2015, we determined that the carrying amount of the reporting unit exceeds its fair value amount, as a result an impairment of \$70.9 million was recorded. In addition, we performed an impairment review of several intangible assets that were recognized in connection with the acquisitions of Perion, which resulted in an impairment of \$8.5 million. These expenses were partially offset by a net gain of \$6.6 million, pursuant to an amendment to the Grow Mobile acquisition agreement, reversing the previously recorded contingent payment of \$9.1 million, in exchange for a payment of \$2.5 million, \$1.5 million out of which was paid in cash and \$1.0 million was paid in the our ordinary shares that were issued to Grow Mobile's former shareholders..

Taxes on income. Taxes on income decreased by 94%, from \$10.8 million in 2014, to \$0.7 million in 2015. The decrease in the tax expenses is linked to the decrease in our income before tax as a result of the aforementioned decrease in revenues. In addition, in 2015 we recorded a tax benefit of \$7.1 million as a result of reversal of a valuation allowance in respect of net operating losses after the acquisition of Undertone, as it is more likely than not, they will be utilized in future periods.

Net income (loss) from continuing operations. Net income decreased by \$91.0 million, from net income of \$49.3 million in 2014 to a net loss of \$41.7 million in 2015. The decrease resulted primarily from the substantial increase in net impairment costs and the decrease in our revenues, net of CAC, partially offset by a decrease in our share based compensation expenses, tax expenses, restructuring costs and other significant cost saving measures in 2015.

B. LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2016, we had \$32.4 million in cash, cash equivalents and short-term deposits, compared to \$60.0 million at December 31, 2015. The \$27.6 million decrease is primarily the result of \$29.5 million paid for the acquisition of Undertone in 2016, a \$23.1 million repayment of our short and long term debt and \$5.2 million used in other investing activities, partially offset by \$30.5 million cash provided by operating activities.

For 2014, 2015 and 2016, our cash flows were as follows (in thousands of U.S. dollars):

	Year ended December 31		
	2014	2015	2016
Net cash provided by continuing operating activities	\$ 77,058	\$ 23,772	\$ 33,784
Net cash used in discontinued operating activities	(5,016)	(6,203)	(3,329)
Net cash provided (used in) investing activities	(6,984)	(120,446)	28,731
Net cash provided by (used in) financing activities	35,176	19,199	(52,607)
	<u>\$ 100,234</u>	<u>\$ (83,678)</u>	<u>\$ 6,579</u>

Net cash provided by continuing operating activities

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

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

In 2014, our continuing operating activities provided cash in the amount of \$77.1 million, primarily due to net income of \$49.3 million, increased by non-cash expenses including, depreciation, amortization and impairment expenses of \$41.9 million, stock-based compensation expenses of \$13.8 million, other non-cash expenses of \$3.5 million and an increase in accounts payable and accrued expenses of \$12.0 million, offset by a net increase of \$13.9 million in deferred tax assets, an increase in accounts receivable of \$23.6 million and changes of \$5.9 million in other operating assets and liabilities.

Net cash used in investing activities

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

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

In 2014, our investing activities used \$7.0 million cash, primarily due to a deposit of \$15.0 million in short term bank deposits, \$10.9 million invested in the purchase of property and equipment and \$4.3 million used for the acquisition of Grow Mobile, partially offset by cash acquired through the acquisition of Perion in the amount of \$23.4 million.

Net cash provided by (used in) financing activities

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

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

In 2014, our financing activities provided \$35.2 million cash, primarily from \$37.9 million raised from the Israeli public in long-term, convertible debt, \$1.6 million from the exercise of stock options and \$0.5 million contributed by shareholders, partially offset by \$2.5 million paid in connection with an acquisition and the \$2.3 million repayment of long-term bank loans.

Credit Facilities

On May 17, 2012, we entered into a loan agreement with two Israeli banks, pursuant to which we borrowed \$10.0 million. In December 2014, we executed a cross-currency and interest swap transaction with one of the banks in order to mitigate the potential impact of the fluctuations in the ILS/\$ exchange rate in regard to the future interest and principal payments of our convertible bonds (described below), which are denominated in ILS. In April 1, 2015, we amended the loan agreement to ensure the fulfillment of the financial covenants, effective December 31, 2014. As of December 31, 2016, we have fully repaid one of the loans, and the outstanding balance of \$0.4 million will be repaid by April 2017. The agreement contains various provisions, including financial covenants, restrictive covenants, including negative pledges, and other commitments typically contained in loans agreements of this type.

On November 30, 2015, concurrent with the closing of the Undertone acquisition, Undertone entered into a new secured credit agreement with SunTrust Bank, Silicon Valley Bank and Comerica Bank. The secured credit facility was amended three times during 2016. As of December 31, 2016, the principal amount of the facility was \$42.5 million, currently being paid in quarterly installments, the last of which is scheduled for December 2019. The installments started in the amount of \$0.6 million, will increase to \$1.25 million in March 2018 and require a final payment upon maturity in the amount of \$30 million. The outstanding principal amount bears interest at LIBOR plus 5.5% per year and is secured by substantially all the assets of the companies in the Undertone group and by guarantees of such companies. The loan is required to be prepaid by Undertone in certain circumstances, such as from proceeds of asset sales or casualty insurance policies, debt or equity offerings, or from excess cash flow in the event that Undertone's total leverage ratio exceeds specified targets, and a pro rata portion of indemnification payments (or offset of the holdback amount) under our merger agreement with Undertone. During 2016, Undertone prepaid \$5 million.

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

- minimum total leverage ratio ranging from 2.95 to 1.75 during the course of the credit facility; and
- fixed coverage ratio of ranging between 1.5 to 2.0 during the course of the credit facility.

The Undertone credit facility contains customary restrictive covenants, including those regarding indebtedness and preferred equity, liens, fundamental changes, investments, loans, restricted payments, asset sales, transactions with affiliates, restrictive agreements and sale and leaseback transactions. It also contains customary events of default, including a "change in control", which is defined to include, among other things, the acquisition of record or beneficial ownership by any person or group of 35% or more of Perion's outstanding ordinary shares or the failure of continuing directors to constitute a majority of Perion's board of directors over a period of 24 consecutive months. As of December 31, 2016, the balance of the loan is \$41.2 million, out of which \$37.9 million classified as long term debt and \$3.3 million as current maturities.

Series L Convertible Bonds

On September 23, 2014, we completed a public offering in Israel of Series L Convertible Bonds (the "Bonds"). The Bonds have an aggregate principal amount of approximately ILS 143.5 million, of which, as of December 31, 2016, approximately ILS 114.8 million are outstanding (approximately \$29.9 million). The Bonds, which are listed on the Tel Aviv Stock Exchange, are convertible into an aggregate of approximately 4.3 million ordinary shares, at a conversion price of ILS 33.605 per share (approximately \$8.74 per share as of December 31, 2016). The principal of the Bonds is repayable in five equal annual installments commenced on March 31, 2016, with a final maturity date of March 31, 2020. The Bonds bear interest at the rate of 5% per year, subject to increases up to 6%, in the event of downgrades of our debt rating. On February 8, 2017, Standard & Poor's Maalot Ratings Services reaffirmed our corporate credit rating of iLA-, with a stable outlook. The interest is payable semi-annually on March 31 and September 30 of each of the years 2015 through 2019, as well as a final payment on March 31, 2020.

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

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

As of December 31, 2016, we were in compliance with all of the foregoing covenants.

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

Private placement

On December 3, 2015, we completed a private placement of 4,436,898 ordinary shares for gross proceeds of \$10.0 million, net of legal fees, pursuant to a securities purchase agreement with J.P. Morgan Investment Management Inc., as investment advisor to the National Council for Social Security Fund and 522 Fifth Avenue Fund L.P. (collectively referred to as the "Investors"). The purchase price per share was \$2.282 per share, which was the average closing price of an ordinary share on the Nasdaq Global Select Market for the 30 trading days ending on December 1, 2015. According to a one-time price adjustment mechanism in the securities purchase agreement, on September 1, 2016, the per share purchase price was adjusted downward by 15%, and we issued to the Investors 782,981 additional ordinary shares.

Financing Needs

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

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

Our research and development activities are conducted internally by a 136 person (at December 31, 2016) research and development staff. Research and development expenses were \$37.4 million, \$21.7 million and \$26.5 million in the years ended December 31, 2014, 2015 and 2016, respectively. In 2016, our efforts were focused in two primary areas, (1) in our search generating revenue business, on maintaining our software products to adapt with changes to operating systems, browsers or other underlying platforms and (2) in our high-impact advertising business on developing new solutions to enhance our digital advertising capabilities.

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

D. TREND INFORMATION

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

1. The digital advertising environment is very crowded and consumers suffer from over exposure to advertising promotions. This in turn has brought on a certain level of blindness to advertising, decreasing their effectiveness and value to advertisers. We are therefore concentrating on unique stand-out 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 maintain an excessive number of "small" relationships in order to understand and receive a comprehensive solution. We are attempting to address this need in our various revenue streams by providing robust and differentiated products. 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. 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 stream is predominantly within the PC desktop environment, encouraging the development of downloadable software and advertising on the desktop. The transition of consumer consumption of utility and content towards mobile platforms has accelerated and, as a result, an increasing share of advertising campaigns is channeled towards mobile platforms and fewer consumer software downloadable products are being developed. To address this trend, we have shifted the growth focus of all parts of our business away from downloadable PC software. We are focusing on monetization tools for content publishers that could also be cross-platform, accommodating mobile platforms as well.
4. In past years the browser companies, particularly Google and Microsoft, as well as others, have been instituting policy changes and regulations making it increasingly difficult to change a browser's settings even with user consent, including the ability to change a browser's default search settings. Changing such settings has been a major part of the Company's monetization model and until now we have been successful in dealing with these measures, within the framework allowed by these companies; however, it is becoming increasingly difficult to do so. In connection with these efforts by the browser companies, they are also making an effort to reset the applicable browser's settings back to its default setting, causing us to have to recapture our users on a more frequent basis. These activities have shortened the average lifetime we see from users utilizing our search settings. This has reduced the return on investment from our marketing and distribution efforts. Moreover, the increased frequency of changes has limited our visibility and therefore our ability to invest in customer acquisition. However, we continue to believe, as supported by the level of revenues over the last couple of years, that as the market consolidates around accepted marketing practices, there remains sufficient business. While the profit margins continued to compress, we believe they are settling at a level sufficient to generate significant revenues and profits.

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

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

E. OFF-BALANCE SHEET ARRANGEMENTS

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

F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The following table summarizes our contractual commitments as of December 31, 2016 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, 2016	Payments Due by Period ^(****)				
	Total	Less than 1 year	1-3 Years	3-5 Years	More than 5 Years
Long-term debt, including current portion (*)	\$ 49,900	\$ 11,150	\$ 38,750	\$ -	\$ -
Accrued severance pay (**)	1,555	-	-	-	1,555
Convertible debt (*)	29,854	7,463	14,927	7,464	-
Payment obligation related to acquisitions(***)	7,714	7,714	-	-	-
Operating leases	30,107	6,275	10,615	6,955	6,262
Total	<u>\$ 119,130</u>	<u>\$ 32,602</u>	<u>\$ 64,292</u>	<u>\$ 14,419</u>	<u>\$ 7,817</u>

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

(**) Severance pay obligations to our Israeli employees, as required under Israeli labor law and as set forth in employment agreements, are payable only upon termination, retirement or death of the respective employee and are for the most part covered by ongoing payments to funds to cover such obligations. Of this amount, \$ 1,378 is unfunded.

(***) Payment obligation related to acquisitions, represents the maximum cash payments we will be obligated to make under consideration arrangements with former owners of certain entities we acquired. As of December 31, 2016 we have cash payment obligations related to acquisitions in the amount of \$7,653 included on our balance sheet.

(****) The total amount of unrecognized tax benefits for uncertain tax positions was \$3,429 as of December 31, 2016. Payment of these obligations would result from settlements with taxing authorities. Due to the difficulty in determining the timing of resolution of audits, these obligations are not included in the table.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. DIRECTORS AND SENIOR MANAGEMENT

The following table sets forth information regarding our executive officers and directors as of March 1, 2017:

Name	Age	Position
Alan Gelman ^{*(1)(2)}	61	Chairman of the Board
Yacov Kaufman	59	Chief Financial Officer and Interim Chief Executive Officer
Dror Erez	48	Director
Sarit Firon ^{*(1)(3)(4)}	50	External Director
Roy Gen ⁽¹⁾	45	Director
Avichay Nissenbaum ^{*(2)(3)(4)}	50	External Director
Osnat Ronen ^{*(4)}	54	Director
Michael Vorhaus ^{*(2)(3)}	59	Director
Limor Gershoni Levy	46	Senior Vice President, General Counsel
Rini Karlin	45	Senior Vice President, Human Resources
Miki Kolko	54	Chief Technology Officer
Amir Nahmias	48	General Manager, CodeFuel Business Unit
Robert Schwartz	39	President, Undertone Business Unit and Chief Strategy Officer

* "Independent director" under the NASDAQ Listing Rules.

(1) Member of the investment committee.

(2) Member of the nominating and governance committee.

(3) Member of the compensation committee.

(4) Member of the audit committee.

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

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

Yacov Kaufman has been the Chief Financial Officer of the Company since November 2005. Since January 2017, Mr. Kaufman is also our Interim Chief Executive Officer. From 1996 to November 2005, Mr. Kaufman served as the Chief Financial Officer of Acorn Energy Inc. (formerly Data Systems & Software Inc., NASDAQ: ACFN). From 1986 to 1996, Mr. Kaufman served in various positions at dsIT Technologies Ltd., a subsidiary of Acorn, including as its Chief Financial Officer, from 1990 to 1996, and as its comptroller, from 1986 to 1990. From 1993 to 1999, Mr. Kaufman served as a director of Tower Semiconductor Ltd. (NASDAQ: TSEM). Mr. Kaufman is an Israeli Certified Public Accountant and holds a B.A. in Accounting and Economics from the Hebrew University of Jerusalem and an M.B.A. in Business Finance from Bar-Ilan University.

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

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

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

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

Osnat Ronen has been a director of the Company since December 2015. Ms. Ronen founded FireWind PE in 2015 and has since served as its general partner. Ms. Ronen has also served as an advisor to Liquidnet since 2013. From January 2008 to March 2013, she served as a general partner of Viola Private Equity. From 1994 to 2007, Ms. Ronen served in various positions at Bank Leumi Le Israel B.M. (TASE: LUMI), including as the Deputy Chief Executive Officer of Leumi Partners Ltd. from 2001 to 2007 and as Deputy Head of the Subsidiaries Division of the Leumi Group from 1999 to 2001. Ms. Ronen currently serves as a director of Mizrahi Tefahot Bank Ltd. (TASE: MZTF), Fox-Wizel Ltd. (TASE: FOX) and Partner Communications Company Ltd. (NASDAQ and TASE: PTNR). She also volunteers as a director of the College for Management and Yissum Research Development Company of the Hebrew University of Jerusalem. Ms. Ronen has also served as a director of several portfolio companies of Viola, including: AmiadWater Systems Ltd. (AIM: AFS), Orad Hi-Tec Systems Ltd., Aeronautics Ltd., Degania Medical Ltd. and MatomyMedia Group Ltd. (LSE: MTMY). Ms. Ronen holds a B.Sc. in mathematics and computer science from Tel Aviv University, as well as an M.B.A. from the Recanati School of Business Administration at Tel Aviv University.

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

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

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

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

Amir Nahmias has been the General Manager of our CodeFuel business unit since December 2014. From March 2008 until December 2013, Mr. Nahmias served as Vice President of Publishers at Conduit Ltd. Between January 2014 and December 2014, Mr. Nahmias served as a Vice President of Sales and Partnerships in our CodeFuel division.

Robert Schwartz has been the Chief Strategy and Development Officer of the Company since December 2015 and has served also as President of our Undertone business unit, since October 2016. From October 2012 to November 2015, he was the Senior Vice President of Corporate Strategy and Business Development of Undertone. From 2010 to 2012, Mr. Schwartz was the Vice President of Strategy and Corporate Development at the Topps Company. From 2007 to 2010, Mr. Schwartz was a management consultant at Bain & Company, serving clients in the media and entertainment, consumer goods, and industrial industries. He has also held strategy and operating roles at PepsiCo and IBM. Mr. Schwartz holds a B.A. in Government from Harvard College and an M.B.A. from Harvard Business School.

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 (11 persons) for the year ended December 31, 2016, was approximately \$9.3 million, which included approximately \$0.5 million that was set aside or accrued to provide for pension, retirement, severance or similar benefits. This amount includes bonuses paid to our officers pursuant to our executive bonus plan based on company performance measures, in accordance with our Compensation Policy for Directors and Officers. This amount does not include expenses we incurred for other payments, including dues for professional and business associations, business travel and other expenses, and other benefits commonly reimbursed or paid by companies in Israel.

The aggregate compensation we paid to our directors who are not officers for their services as directors as a group for the year ended December 31, 2016 was approximately \$0.4 million. In addition, our directors are reimbursed for expenses incurred in order to attend board or committee meetings.

In the year ended December 31, 2016, we granted (i) options to purchase 615,000 ordinary shares to our officers, at a weighted average exercise price of \$1.03 per share, and the latest expiration date for such options is November 2021. These options were granted under our Equity Incentive Plan, as amended, formerly known as the 2003 Israeli Share Option Plan (the "Incentive Plan").

In 2016, we paid each of our directors \$50,000 per year, subject to adjustment for changes in the Israeli consumer price index and applicable changes in the Israeli regulations governing the compensation of external directors. Each of our directors also received, on January 5, 2017, an annual grant of options to purchase 25,000 ordinary shares under the Incentive Plan. Each option is exercisable for a term of five years at an exercise price per share equal to the closing price of our ordinary shares on the date of the annual meeting of shareholders on which such option was granted, as reported by the NASDAQ Stock Market. The options vest in three equal installments on each anniversary of date of grant. Following termination or expiration of the applicable director's service with the Company, provided that the termination or expiration is not for "cause" and is not a result of the director's resignation, the options would retain their original expiration dates and, with respect to each grant, the upcoming tranche of options that are scheduled to vest immediately subsequent to the termination date, if any, will automatically vest and become exercisable. All unvested options held by the director will automatically vest and become exercisable upon a change of control of the Company, which is defined for this purpose as (i) a merger, acquisition or reorganization of the Company with one or more other entities in which the Company is not the surviving entity, (ii) a sale of all or substantially all of the assets of the Company; (iii) a transaction or a series of related transactions as a result of which more than 50% of the outstanding shares or the voting rights of the Company are beneficially owned by one person or group (as defined in the SEC rules).

The table below reflects the compensation granted to our five most highly compensated office holders during or with respect to the year ended December 31, 2016. 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, 2016, including the compensation paid to such Covered Executive following the end of the year in respect of services provided during the year. Each of the Covered Employees was covered by our D&O liability insurance policy and was entitled to indemnification and exculpation in accordance with applicable law and our articles of association. All numbers below are in US Dollars in thousands.

Name and Principal Position (1)	Salary Cost (2)	Bonus (3)	Equity-Based Compensation (4)	Total
Josef Mandelbaum, former CEO	892	150	1,944	2,986
Amir Nahmias, General Manager, CodeFuel Business Unit	548	451	735	1,734
Yacov Kaufman, CFO	532	87	628	1,247
Limor Gershoni Levy, Senior vice President, General Counsel	343	59	408	810
Robert Schwartz, President, Undertone Business Unit and Chief Strategy Officer	441	105	88	634

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

(2) Salary cost includes the Covered Executive's gross salary plus payment of social benefits made by the Company on behalf of such Covered Executive. Such benefits may include, to the extent applicable to the Covered Executive, payments, contributions and/or allocations for savings funds (e.g., Managers' Life Insurance Policy), education funds (referred to in Hebrew as "*keren hishtalmut*"), pension, severance, dismissal notice accrued during the year, 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, 2016. Such numbers are based on the option or RSU grant date fair value in accordance with accounting guidance for equity-based compensation and does not necessarily reflect the cash proceeds to be received by the applicable officer upon the vesting and sale of the underlying shares. For a discussion of the assumptions used in reaching this valuation, see Note 2 to our Financial Statements.

Compensation Terms of our Former Chief Executive Officer

Josef Mandelbaum served as our Chief Executive Officer from July 2010 to January 2017. His base salary at the time of termination was ILS 161,684 per month (equivalent to \$42,100, as of December 31, 2016). In addition, Mr. Mandelbaum was entitled to an annual bonus equal to up to 50% of his base salary, subject to our meeting our annual targets for revenue and EBIT set by our Board of Directors. Half of the bonus depended on meeting the revenue target and half on meeting the EBIT target.

We granted to Mr. Mandelbaum 200,000 RSUs on November 18, 2013 and 232,400 RSUs on January 2, 2014. These RSUs were granted under the Incentive Plan and have a purchase price of ILS 0.01 per share. They all vested over a period of three years.

Mr. Mandelbaum's separation terms are in accordance with his employment agreement, pursuant to which he will be entitled to continued benefits until September 2017. He has agreed not to compete with us during his term of employment and for a period of 180 days thereafter. His employment agreement also contains customary confidentiality and intellectual property assignment provisions.

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

C. BOARD PRACTICES

Corporate Governance Practices

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

NASDAQ Requirements

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

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

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

Board of Directors

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

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

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

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

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

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

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

A resolution proposed at any meeting of our board of directors is deemed adopted if approved by a majority of the directors present and voting on the matter. Under the Companies Law, our board of directors must determine the minimum number of directors having financial and accounting expertise, as defined in the regulations that our board of directors should have. In determining the number of directors required to have such expertise, the board of directors must consider, among other things, the type and size of the company and the scope and complexity of its 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, the chairperson of the board of a company is not permitted to hold another position in the company or a subsidiary thereof other than chairperson or director of a subsidiary or, if approved by a special majority of shareholders, chief executive officer of the company.

External Directors

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

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

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

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

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

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

Committees of the Board of Directors

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

Audit Committee

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

NASDAQ Requirements

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

Companies Law Requirements

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

Compensation Committee

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

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

Investment Committee

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

Nominating and Governance Committee

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

Internal Auditor

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

D. EMPLOYEES

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

	December 31,		
	2014*	2015*	2016
Cost of sales	19	20	17
Research and development	187	168	136
Selling and marketing	104	262	272
General and administration	97	128	110
Total	439	646	535

*not including employees engaged in the discontinued operations.

As of December 31, 2016, 222 of our employees were located in Israel, 237 of our employees were located in the United States and 76 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 agreement between the Histadrut, which is the General Federation of Labor in Israel, and the Coordination Bureau of Economic Organizations, including the Industrialist's Association of Israel. These provisions of collective bargaining agreements apply to our Israeli employees by virtue of extension orders issued in accordance with relevant labor laws by the Israeli Ministry of Economy, and which apply such agreement provisions to our employees even though they are not directly part of a union that has signed a collective bargaining agreement. The laws and labor court rulings that apply to our employees principally concern minimum wage laws, procedures for dismissing employees, determination of severance pay, leaves of absence (such as annual vacation or maternity leave), sick pay and other conditions for employment. The extension orders which apply to our employees principally concern the requirement for the length of the workday and the work-week, annual recuperation pay and commuting expenses, compensation for working on the day before and after a holiday and payments to pension funds and other conditions for employment. Furthermore, these provisions provide that the wages of most of our employees are adjusted automatically. The amount and frequency of these adjustments are modified from time to time. Additionally, we are required to insure all of our employees by a comprehensive pension plan or a managers' insurance according to the terms and the rates detailed in the order. In addition, Israeli law determines minimum wages for workers, minimum paid leave or vacation, sick leave, working hours and days of rest, insurance for work-related accidents, determination of severance pay, the duty to give notice of dismissal or resignation and other conditions of employment. In addition, certain laws prohibit or limit the employer's ability to dismiss its employees in special circumstances. We have never experienced a work stoppage, and we believe our relations with our employees are good.

Israeli law generally requires the payment of severance by employers upon the retirement or death of an employee or upon termination of employment by the employer or, in certain circumstances, by the employee. Most of our agreements with employees in Israel are in accordance with Section 14 of the Severance Pay Law, 1963 ("Section 14"), where our contributions for severance pay are paid in lieu of any severance liability. Upon contribution of the full amount of the employee's monthly salary, and release of the policy to the employee, no additional severance payments are required to be made by us to the employee. Additionally, the related obligation and amounts deposited pursuant to such obligation are not stated on the balance sheet, as we are legally released from any obligation to employees once the deposit amounts have been paid. Our liability for severance pay to employees not under Section 14 is calculated pursuant to Israel's Severance Pay Law based on the employees' most recent monthly salaries, multiplied by the number of years of their employment, or a portion thereof, as of the balance sheet date. This liability is provided for by monthly deposits into accounts for the benefit of the employees and by an accrual. The deposited funds include profits (losses) accumulated up to the balance sheet date. As of December 31, 2016, our net accrued unfunded severance obligations totaled \$1,378 million.

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

E. SHARE OWNERSHIP

Security Ownership of Directors and Executive Officers

The following table sets forth information regarding the beneficial ownership of our ordinary shares as of March 1, 2017 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 shareholder in the table has sole voting and investment power for the shares shown as beneficially owned by them. Percentage ownership is based on 77,550,069 ordinary shares outstanding as of March 1, 2017.

Name	Number of Ordinary Shares Beneficially Owned	Percentage of Ordinary Shares Outstanding
Dror Erez (1)	9,190,642	11.8%
All directors and officers as a group (12 persons) (2)	10,684,418	13.6%

(1) Based upon information provided to us by Mr. Erez. Includes options to purchase 24,999 ordinary shares, that are vested or will vest, within 60 days of March 1, 2017.

(2) Includes options to purchase 853,897 ordinary shares, that are vested or will vest within 60 days of March 1, 2017.

Employee Benefit Plans

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

Under the Incentive Plan, as amended from time to time, we may grant to our directors, officers, employees, consultants, advisers, service providers and controlling shareholders options to purchase our ordinary shares, restricted shares and RSUs. As of December 31, 2016, a total of 7,197,886 ordinary shares were subject to the Incentive Plan. As of March 1, 2017, options to purchase a total of 11,863,941 ordinary shares were outstanding under our Incentive Plan, of which options to purchase a total of 3,493,073 ordinary shares were held by our directors and officers (13 persons) as a group. The outstanding options are exercisable at purchase prices which range from \$0.34 to \$13.54 per share. Any expired or cancelled options are available for reissuance under the Incentive Plan.

Our Israeli employees and directors may be granted awards under Section 102 ("Section 102") of the Israeli Income Tax Ordinance (the "Tax Ordinance"), which provides them with beneficial tax treatment, and non-employees (such as service providers, consultants and advisers) and controlling shareholders may only be granted awards under another section of the Tax Ordinance, which does not provide for similar tax benefits. To be eligible for tax benefits under Section 102, the securities must be issued through a trustee, and if held by the trustee for the minimum required period, the employees and directors are entitled to defer any taxable event with respect to the award until the earlier of (i) the transfer of securities from the trustee to the employee or director or (ii) the sale of securities to a third party. Our board of directors has resolved to elect the "Capital Gains Route" (under Section 102) for the grant of awards to Israeli grantees under the Incentive Plan. Based on such election, and subject to the fulfillment of the conditions of Section 102, under the Capital Gains Route, gains realized from the sale of shares issued pursuant to the Incentive Plan will generally be taxed at the capital gain rate of 25%, provided the trustee holds the securities for 24 months following the date of grant of the award. To the extent that the market price of the ordinary shares at the time of grant exceeds the exercise price of the award or if the conditions of Section 102 are not met, tax will be payable at the time of sale at the marginal income tax rate applicable to the employee or director (up to 50% in 2016). We are not entitled to recognize a deduction for Israeli tax purposes on the capital gain recognized by the award holder upon the sale of shares pursuant to Section 102. The voting rights of any shares held by the trustee under Section 102 remain with the trustee.

The Incentive Plan contains a U.S. addendum that provides for the grant of awards to U.S. citizens and resident aliens of the United States for U.S. tax purposes. Pursuant to the approval of our board of directors and shareholders, stock options granted to U.S. citizens and resident aliens may be either incentive stock options under the U.S. Internal Revenue Code of 1986, as amended (the "Code") or options that do not qualify as incentive stock options. Subject to the fulfillment of the conditions of the Code, an incentive stock option may provide tax benefits to the holder in that it converts ordinary income into income taxed at long-term capital gain rates and defers the tax until the sale of the underlying share. In that event, we would not recognize a tax deduction with respect to such capital gain.

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

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

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. MAJOR SHAREHOLDERS

The following table sets forth information regarding the beneficial ownership of our ordinary shares as of March 1, 2017 by each person or group of affiliated persons that we know beneficially owns more than 5% of our outstanding ordinary shares. Other than with respect to our directors and officers, we have relied on public filings with the SEC.

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

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

Name	Number of Ordinary Shares Beneficially Owned	Percentage of Ordinary Shares Outstanding (1)
Benchmark Israel II, L.P. and affiliates (2)	9,576,772	12.3%
J.P. Morgan Investment Management Inc. (3)	9,422,946	12.2%
Dror Erez (4)	9,190,642	11.8%
Ronen Shilo (5)	8,858,847	11.4%
Zack and Orli Rinat (6)	6,484,347	8.4%

(1) Based upon 77,550,069 ordinary shares outstanding as of March 1, 2017.

(2) Based solely upon, and qualified in its entirety with reference to, a Schedule 13G/A filed with the SEC on February 14, 2017, by Benchmark Israel II, L.P. ("BI II") and affiliates. BCPI Partners II, L.P. ("BCPI-P"), the general partner of BI II may be deemed to have sole power to vote and dispose of the 9,293,742 shares directly held by BI II. BCPI Corporation II ("BCPI-C"), the general partner of BCPI-P, may be deemed to have sole power to vote and dispose of the shares directly held by BI II. Michael A. Eisenberg and Arad Naveh, the directors of BCPI-C, may be deemed to have shared power to vote and dispose of the shares directly held by BI II. 283,030 shares are held in nominee form for the benefit of persons associated with BCPI-C. BCPI-P may be deemed to have sole power to vote and dispose of these shares, BCPI-C may be deemed to have sole power to vote and dispose of these shares and Messrs. Eisenberg and Naveh may be deemed to have shared power to vote and dispose of these shares.

(3) Consists of: (i) 4,203,067 ordinary shares directly held by Project Condor LLC ("Condor"); (ii) 5,155,436 ordinary shares directly held by the National Council for Social Security Fund ("SSF"); and (iii) 64,443 ordinary shares held by 522 Fifth Avenue Fund, L.P. ("522 Fund"). PEG Digital Growth Fund L.P. ("DGF") owns 98.75% of the membership interests of Condor and 522 Fund owns 1.25% of the membership interests of Condor. As the holder of the majority of the membership interests of Condor, DGF manages Condor and has shared voting or dispositive power over the 4,203,067 ordinary shares held by Condor. J.P. Morgan Investment Management Inc. ("JPMIM") serves as investment advisor to each of DGF, 522 Fund, and SSF. Based upon, and qualified in its entirety with reference to, a Schedule 13G filed with the SEC on January 11, 2017, by JPMIM, DGF, Condor and SSF.

(4) Based solely upon, and qualified in its entirety with reference to, a Schedule 13D/A filed with the SEC on November 25, 2015, by Mr. Erez. Includes options to purchase 24,999 ordinary shares that are vested or will vest within 60 days of March 1, 2017.

(5) Based solely upon, and qualified in its entirety with reference to, a Schedule 13D/A filed with the SEC on November 25, 2015, by Mr. Shilo.

(6) Based solely upon, and qualified in its entirety with reference to, a Schedule 13G filed with the SEC on January 16, 2014, by Zack and Orli Rinat. The Ordinary Shares are held by Zack Rinat and Orli Rinat as community property.

To our knowledge, as of March 1, 2017, we had 13 shareholders of record of which 11 (including the Depository Trust Company) were registered with addresses in the United States. These U.S. holders were, as of such date, the holders of record of approximately 93.79% of our outstanding shares. The number of record holders in the United States is not representative of the number of beneficial holders nor is it representative of where such beneficial holders are resident since many of these ordinary shares were held of record by brokers or other nominees.

B. RELATED PARTY TRANSACTIONS

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

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

Agreement with Conduit Shareholders

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

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. As described in Item 3.A above, since 2014, the ClientConnect Acquisition has been reflected in our financial statements as a reverse acquisition of all of our outstanding shares and options by ClientConnect in accordance with Accounting Standards Codification Topic 805, "Business Combinations" ("ASC 805"), using the acquisition method of accounting whereby ClientConnect is the deemed accounting acquirer and Perion is the deemed accounting acquiree. In accordance with the ASC 805 presentation requirements, our financial statements include ClientConnect's comparative numbers, but not Perion's comparative numbers, for 2013.

Legal Proceedings

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

On December 22, 2015, Adtile Technologies Inc. ("Adtile") filed a lawsuit against Perion and its wholly-owned subsidiary, Intercept Interactive Inc. ("Intercept") in the United States District Court for the District of Delaware. The lawsuit alleges various causes of action against Perion and Intercept related to Intercept's alleged unauthorized use and misappropriation of Adtile's proprietary information and trade secrets. Adtile is seeking injunctive relief and unspecified monetary damages. We are unable to predict the outcome or range of possible loss at this stage. On June 23, 2016, the court denied Adtile's motion for a preliminary injunction. On June 24, 2016, the court (i) granted Perion's motion to dismiss and (ii) granted Intercept's motion to stay the action and compel arbitration. We believe that we have strong defenses against this lawsuit and we intend to defend against it vigorously.

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 this report under Item 4.A. – "Recent Developments."

ITEM 9. THE OFFER AND LISTING

A. OFFER AND LISTING DETAILS

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

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

	NASDAQ		TASE	
	High (\$)	Low (\$)	High (\$)	Low (\$)
Five most recent full financial years				
2016	3.25	0.94	3.71	0.95
2015	4.52	2.05	4.56	2.06
2014	14.33	4.26	14.33	4.31
2013	14.94	8.19	14.90	8.21
2012	10.50	3.68	10.45	3.85
Financial quarters during the past two recent full financial years and any subsequent period				
Fourth Quarter 2016	1.47	0.94	1.43	0.95
Third Quarter 2016	1.49	1.07	1.51	1.09
Second Quarter 2016	2.05	1.01	2.01	1.05
First Quarter 2016	3.25	1.98	3.71	1.99
Fourth Quarter 2015	3.94	2.08	3.69	2.07
Third Quarter 2015	2.92	2.05	2.98	2.06
Second Quarter 2015	3.91	2.75	3.94	2.75
First Quarter 2015	4.52	3.11	4.56	3.07
Most recent six months				
February 2017	2.38	1.84	2.30	1.86
January 2017	1.87	1.44	1.93	1.42
December 2016	1.47	1.10	1.43	1.17
November 2016	1.22	0.94	1.21	0.95
October 2016	1.24	1.01	1.21	1.05
September 2016	1.39	1.16	1.38	1.21

The closing prices of our ordinary shares, as reported on the NASDAQ and on the TASE on March 6, 2017, were \$1.94 and ILS 7.03 (equal to \$1.91 based on the exchange rate between the ILS and the dollar, as quoted by the Bank of Israel on March 6, 2017), respectively.

B. PLAN OF DISTRIBUTION

Not applicable.

C. MARKETS

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

D. SELLING SHAREHOLDERS

Not applicable.

E. DILUTION

Not applicable.

F. EXPENSES OF THE ISSUE

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. SHARE CAPITAL

Not applicable

B. MEMORANDUM AND ARTICLES OF ASSOCIATION

Registration Number and Purposes

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

Authorized Share Capital

On November 18, 2013, our shareholders approved amendments to our memorandum and articles of association increasing our authorized share capital to ILS 1,200,000, divided into 120,000,000 ordinary shares, par value ILS 0.01 per share.

The Board of Directors

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

Dividend and Liquidation Rights

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

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

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

Voting, Shareholder Meetings and Resolutions

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

Our articles of association and the laws of the State of Israel do not restrict the ownership or voting of ordinary shares by non-residents of Israel.

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

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

Most shareholders' resolutions, including resolutions to:

- amend our articles of association (except as set forth below) 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, the composition and size of the board of directors and the insurance, indemnification and release in advance of the company's office holders with respect to certain liabilities incurred by them require the approval at a general meeting of shareholders holding more than two-thirds of the voting power of the issued and outstanding share capital of the company.

Notices

Under the Companies Law, shareholders' meetings generally require prior notice of at least 21 days, or 35 days if the meeting is adjourned for the purpose of voting on any of the following matters:

- (1) appointment and removal of directors;
- (2) approval of certain matters relating to the fiduciary duties of office holders and of certain transactions with interested parties;
- (3) approval of certain mergers; and
- (4) any other matter in respect of which the articles of association provide that resolutions of the general meeting may be approved by means of a voting document.

Modification of Class Rights

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

Election of Directors

Our ordinary shares do not have cumulative voting rights in the election of directors. Therefore, the holders of ordinary shares representing more than 50% of the voting power at the general meeting of the shareholders, in person or by proxy, have the power to elect all of the directors whose positions are being filled at that meeting, to the exclusion of the remaining shareholders. External directors are elected by a majority vote at a shareholders' meeting, provided that either:

- the majority of shares voted for the election includes at least a majority of the shares held by non-controlling shareholders voted at the meeting and excluding shares held by a person with a personal interest in the approval of the election, excluding a personal interest which is not as a result of his connection with the controlling shareholder (excluding abstaining votes); or
- the total number of shares of non-controlling shareholders voted against the election of the external director does not exceed two percent of the aggregate voting rights in the company.

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

Transfer Agent and Registrar

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

Approval of Related Party Transactions

Office Holders

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

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. Every Israeli public company must adopt a compensation policy, recommended by the compensation committee, and approved by the board of directors and the shareholders, in that order. The shareholder approval requires a majority of the votes cast by shareholders, excluding any controlling shareholder and those who have a personal interest in the matter (similar to the threshold described below under " – Shareholders"). In general, all office holders' terms of compensation – including fixed remuneration, bonuses, equity compensation, retirement or termination payments, indemnification, liability insurance and the grant of an exemption from liability – must comply with the company's compensation policy. In addition, the compensation terms of directors, the chief executive officer, and any employee or service provider who is considered a controlling shareholder generally must be approved separately by the compensation committee, the board of directors and the shareholders of the company, in that order. The compensation terms of other officers require the approval of the compensation committee and the board of directors.

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

Shareholders

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

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

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

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

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

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

Anti-Takeover Provisions; Mergers and Acquisitions

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

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

Tender Offer. The Companies Law requires a purchaser to conduct a tender offer in order to purchase shares in publicly held companies, if as a result of the purchase the purchaser would hold more than 25% of the voting rights of a company in which no other shareholder holds more than 25% of the voting rights, or the purchaser would hold more than 45% of the voting rights of a company in which no other shareholder holds more than 45% of the voting rights. The 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 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 more than 25% of the voting rights of a company that results in a person becoming a holder of more than 25% of the voting rights of a company, and (iii) a purchase from the holder of more than 45% of the voting rights of a company that results in a person becoming a holder of more than 45% of the voting rights of a company.

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

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

Exculpation, Indemnification and Insurance of Directors and Officers

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

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

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

- any monetary liability whether imposed on him or her in favor of another person pursuant to a judgment, a settlement or an arbitrator's award approved by a court;
- reasonable litigation expenses, including attorneys' fees, incurred by him or her as a result of an investigation or proceedings instituted against him or her by an authority empowered to conduct an investigation or proceedings, which are concluded either (i) without the filing of an indictment against the office holder and without the levying of a monetary obligation in lieu of criminal proceedings upon the office holder, or (ii) without the filing of an indictment against the office holder but with levying a monetary obligation in substitute of such criminal proceedings upon the office holder for a crime that does not require proof of criminal intent;
- 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 indemnify or insure an office holder against a breach of duty of loyalty to the extent that the office holder acted in good faith and had reasonable grounds to assume that the action would not prejudice the company. In addition, an Israeli company may not indemnify, insure or exculpate an office holder against a breach of duty of care if committed intentionally or recklessly, or an action committed with the intent to derive an unlawful personal gain, or for a fine or forfeit levied against the office holder.

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.

C. MATERIAL CONTRACTS

Search Services Agreement with Microsoft Online Inc.

On August 1, 2014, we announced the signing of a three-year agreement with Microsoft, extending our existing partnership, starting January 1, 2015 through December 31, 2017. Upon mutual agreement, the agreement may be renewed for 2018, as well. The agreement includes desktop and tablet distribution with limited exclusivity in the United States, as well as mobile distribution. Either party may terminate the agreement due to the other party's breach of the agreement. In addition, Microsoft may terminate the agreement upon one year's prior written notice, if Microsoft decides to shut down the Bing site.

Registration Rights Undertaking in connection with ClientConnect Acquisition

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

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

Undertone Merger Agreement

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

Undertone Secured Credit Agreement

On November 30, 2015, concurrently with the closing of the Undertone Merger Agreement, Undertone entered into a new secured credit agreement with its existing lenders for \$50 million, due in quarterly installments from March 2016 to November 2019. The credit agreement is not guaranteed by Perion, but it is secured by a pledge on Perion's indemnification rights under the Undertone Merger Agreement.

On March 4, 2016, Undertone entered into an amendment to the secured credit agreement. The amendment to the credit agreement adds a \$10.0 million revolving loan facility (which includes a \$3.0 million swing line loan commitment and a \$3.0 million letter of credit commitment). Additionally, the amendment postpones the commencement date of a few of Undertone's undertakings and covenants and increases Undertone's ability to invest in some of its subsidiaries. On May 8, 2016, Undertone entered into a second amendment to the secured credit agreement further postponing the commencement of some of Undertone's undertakings. Furthermore, on October 7, 2016, Undertone entered into a third amendment reducing the revolving loan facility amount to \$2.5 million and amending financial covenants. As of December 31, 2016 the unpaid balance of the secured credit facility is \$42.5 million.

J.P. Morgan Securities Purchase Agreement

On November 30, 2015, we entered into a securities purchase agreement (the “J.P. Morgan Securities Purchase Agreement”) with J.P. Morgan Investment Management Inc., as investment advisor to the National Council for Social Security Fund and 522 Fifth Avenue Fund L.P. (collectively referred to as the “Investors”). In accordance with the agreement, on December 3, 2015, we completed a private placement to the Investors of 4,436,898 ordinary shares for gross proceeds of \$10.125 million. The purchase price per share was \$2.282, which was the average closing price of an ordinary share on the Nasdaq Global Select Market for the 30 trading days ended on December 1, 2015. Since the 15-trading day weighted average price of an ordinary share on September 1, 2016 was less than \$2.624, the per share purchase price of \$2.282 was adjusted downward by 15%, and we issued to the Investors 782,981 additional ordinary shares for no additional consideration.

J.P. Morgan Registration Rights Agreement

On December 3, 2015, in connection with the J.P. Morgan Securities Purchase Agreement, we entered into a registration rights agreement with the Investors, pursuant to which we granted to the Investors certain registration rights related to the ordinary shares issued per the J.P. Morgan Securities Purchase Agreement. We were required to file a registration statement on Form F-3 for the resale of the ordinary shares within 30 days following December 3, 2015, which we did on December 29, 2015. The registration statement was declared effective on March 31, 2016. We also agreed to other customary obligations regarding registration, including indemnification and maintenance of the applicable registration statement.

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 26.5% for the 2015 tax year. In January 2016, the Israeli parliament approved the reduction of the corporate tax to 25%, starting from January 1, 2016. Under an amendment to the Israeli Income Tax Ordinance enacted in December 2016, the corporate tax rate will decrease to 24% for 2017 and 23% for 2018 and thereafter. However, the effective tax rate payable by a company that derives income from a Preferred Enterprise (as further discussed below) may be considerably lower.

Foreign Currency Regulations

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

Law for the Encouragement of Capital Investments, 1959

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

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

We elected "Preferred Enterprise" status commencing in 2011.

Benefits granted to a Preferred Enterprise include reduced tax rates. In peripheral regions (Development Area A) the reduced tax rate was 9% in 2014, 2015 and 2016. Under an amendment to the Investment Law enacted in December 2016, the reduced tax rate will decrease to 7.5% for 2017 and thereafter. In other regions the tax rate was 16% in 2014, 2015 and 2016. Preferred Enterprises in peripheral regions will be eligible for Investment Center grants, as well as the applicable reduced tax rates.

A distribution from a Preferred Enterprise out of the "Preferred Income" would be subject to 15% withholding tax for Israeli-resident individuals and non-Israeli residents (subject to applicable treaty rates), or 20% for dividends which are distributed on or after January 1, 2014 and from preferred income that was produced or accrued after such date.

A distribution from a Preferred Enterprise out of the "Preferred Income" would be exempt from withholding tax for an Israeli-resident company. A company electing to waive its Beneficiary Enterprise or Approved Enterprise status, which relate to tax incentive programs afforded under previous versions of the Investment Law, through June 30, 2015 may distribute "Approved Income" or "Beneficiary Income" subject to 15% withholding tax for Israeli resident individuals and non-Israeli residents (subject to applicable treaty rates) and exempt from withholding tax for an Israeli-resident company. Nonetheless, a distribution from income exempt under Beneficiary Enterprise and Approved Enterprise programs will subject the exempt income to tax at the reduced corporate income tax rates pertaining to the Beneficiary Enterprise and Approved Enterprise programs upon distribution, or complete liquidation in the case of a Beneficiary Enterprise's exempt income.

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

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

In December 2016, the Economic Efficiency Law (Legislative Amendments for Applying the Economic Policy for the 2017 and 2018 Budget Years), 2016, which includes Amendment 73 to the Law for the Encouragement of Capital Investments, was published. According to Amendment 73, the tax rate applicable to preferred enterprises remains at 16% (in regions that are not designated as peripheral regions (Development Area A)). Amendment 73 also prescribes special tax routes for technological enterprises, which are subject to rules that are to be issued by the Minister of Finance by March 31, 2017. The new tax routes under the Amendment 73 are as follows:

- Technological preferred enterprise - an enterprise which the total consolidated annual revenues of its parent company and all subsidiaries are less than NIS 10 billion. A technological preferred enterprise, as defined in the Law, which is located in the center of Israel will be subject to tax at a rate of 12% on profits deriving from intellectual property.

- Special technological preferred enterprise - an enterprise which the total consolidated annual revenues of its parent company and all subsidiaries exceed NIS 10 billion. Such enterprise will be subject to tax at a rate of 6% on profits deriving from intellectual property, regardless of the enterprise's geographical location within Israel.

Any dividends distributed to "foreign companies", as defined in the Law, deriving from income from the technological enterprises will be subject to tax at a rate of 4%.

Since as of December 31, 2016, regulations or other definitive criteria to determine the tax benefits were not yet established, it cannot be concluded that the legislation in respect of technological enterprises was enacted or substantively enacted as of that date. Accordingly, the above changes in the tax rates relating to technological enterprises were not taken into account in the computation of deferred taxes as of December 31, 2016.

Law for the Encouragement of Industry (Taxes), 1969

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

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

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

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

Transfer Pricing

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

Taxation of our Shareholders

Taxation on Dividends to Israeli Resident Shareholders. Starting in 2012, dividends paid to Israeli individuals, are subject to 25% or 30% withholding tax depending on ownership percentage.

Capital Gains Taxes Applicable to Israeli Resident Shareholders. An individual is subject to a 25% tax rate on real capital gains derived from the sale of shares, as long as the individual is not a "substantial shareholder" (generally a shareholder with 10% or more of the right to profits, right to nominate a director and voting rights) in the company issuing the shares.

A substantial shareholder will be subject to tax at a rate of 30% in respect of real capital gains derived from the sale of shares issued by a company in which he or she is a substantial shareholder. The determination of whether the individual is a substantial shareholder will be made on the date on which the securities are sold. In addition, the individual will be deemed to be a substantial shareholder if at any time during the 12 months preceding the date of sale, he or she was a substantial shareholder.

As of January 1, 2013, shareholders that are individuals who have taxable income that exceeds ILS 800,000 in a tax year (linked to the CPI each year) (ILS 803,520 in 2016), will be subject to an additional tax, referred to as High Income Tax, at the rate of 2% on their taxable income for such tax year which is in excess of ILS such threshold. For this purpose taxable income will include taxable capital gains from the sale of our shares and taxable income from dividend distributions. Under an amendment to the Israeli Income Tax Ordinance enacted in December 2016, for 2017 and thereafter the rate of High Income Tax will increase to 3% and will be applicable to annual income exceeding ILS 640,000 (linked to the CPI each year).

Israeli corporations are generally subject to the corporate tax rate (26.5% in 2015, 25.0% in 2016, 24% commencing on January 1, 2017 and 23% commencing on January 1, 2018) on capital gains derived from the sale of shares.

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

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

Taxation of Non-Israeli Shareholders on Receipt of Dividends. Non-residents of Israel are generally subject to Israeli income tax on the receipt of dividends paid on our ordinary shares at the rate of 25%, which tax will be withheld at source, unless a different rate is provided in a treaty between Israel and the shareholder's country of residence. With respect to a substantial shareholder (which is someone who alone, or together with another person, holds, directly or indirectly, at least 10% in one or all of any of the means of control in the corporation at the time of distribution or at any time during the preceding 12 months period), the applicable tax rate will be 30%.

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

U.S. FEDERAL INCOME TAX CONSIDERATIONS

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

- an individual citizen or resident of the United States;
- a corporation (or entity classified as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States, any state of the United States or the District of Columbia;

- an estate, the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust if (i) a court within the United States is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all of its substantial decisions or (ii) the trust has in effect a valid election under applicable U.S. Treasury Regulations to be treated as a U.S. person.

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

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

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

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

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

Distributions Paid on the Ordinary Shares

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

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

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

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

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

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

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

Disposition of Ordinary Shares

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

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

Net Investment Income Tax

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

Passive Foreign Investment Company Considerations

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

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

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

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

Based on our income, assets, activities and market capitalization, we do not believe that we were a PFIC for the taxable year ended December 31, 2016 for U.S. federal income tax purposes. Our belief that we were not a PFIC for the 2016 taxable year is based on our estimate of the fair market value of our assets, including our intangible assets and goodwill, which are not reflected in our financial statements under U.S. GAAP. In calculating the value of our assets, we value our total assets, in part, based on our total market capitalization. We believe this valuation approach is reasonable. However, there can be no assurances that the IRS could not successfully challenge our valuations or methods, which could result in our classification as a PFIC. While we intend to manage our business so as to avoid PFIC status, to the extent consistent with our other business goals, we cannot predict whether our business plans will allow us to avoid PFIC status or whether our business plans will change in a manner that affects our PFIC status determination. In addition, because the market price of our ordinary shares is likely to fluctuate and because that market price may affect the determination of whether we will be considered a PFIC, we cannot be certain that we will not be a PFIC in 2017 or become a PFIC in any other future taxable year.

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

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

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

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

Information Reporting and Backup Withholding

U.S. Holders generally are subject to information reporting requirements with respect to dividends on, or proceeds from the disposition of, our ordinary shares. In addition, a U.S. Holder may be subject, under certain circumstances, to backup withholding (currently, at a rate of up to 28%) with respect to dividends paid on, or proceeds from the disposition of, our ordinary shares unless the U.S. Holder provides proof of an applicable exemption or correct taxpayer identification number, and otherwise complies with the applicable requirements of the backup withholding rules. A U.S. Holder of our ordinary shares who provides an incorrect taxpayer identification number may be subject to penalties imposed by the IRS. Amounts withheld under the backup withholding rules are not an additional tax and may be refunded or credited against the U.S. Holder's U.S. federal income tax liability, provided the required information is furnished to the IRS.

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

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

F. DIVIDENDS AND PAYING AGENTS

Not applicable.

G. STATEMENT BY EXPERTS

Not applicable.

H. DOCUMENTS ON DISPLAY

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

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

I. SUBSIDIARY INFORMATION

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Exchange Rate Risk. A portion of our revenues and expenses are denominated in foreign currencies. As a result, numerous balances are denominated or linked to these currencies. Foreign currency related fluctuations resulted in \$2.7 million, \$0.6 million and \$0.8 million net losses in 2014, 2015 and 2016, respectively. These losses are included in financial expenses, net, as presented in our statements of income.

As of December 31, 2016, balance sheet financial items in U.S. dollars, our functional currency, and those currencies other than the U.S. dollars were as follows:

	<u>U.S. dollars</u>	<u>ILS</u>	<u>Other Currencies</u>	<u>Total</u>
	<u>In thousands of U.S. dollars</u>			
Current assets	103,589	1,426	5,586	110,602
Long-term assets	4,580	225	517	5,322
Current liabilities	(73,207)	(9,879)	(5,613)	(88,699)
Long-term liabilities	(50,180)	(23,387)	(31)	(73,598)
Total	<u>(15,218)</u>	<u>(31,614)</u>	<u>459</u>	<u>(46,373)</u>

The fair value of the outstanding derivative instruments and the notional amount of the hedged instruments as of December 31, 2016 were as follows:

	<u>Notional Amount</u>	<u>Fair Value</u>
	<u>In thousands of U.S. dollars</u>	
Cross currency SWAP	29,854	973
Zero-cost collar contracts to hedge payroll expenses	17,715	17

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 ILS and Euro. The dollar value of those investments may decline. A revaluation of 1% of the foreign currencies (i.e. other than U.S. dollar) would not have a material effect on our income before taxes possibly reducing it by less than \$0.3 million.

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

	Year Ended December 31,		
	2014	2015	2016
Average rate for period	3.577	3.884	3.840
Rate at year-end	3.889	3.902	3.845

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

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

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

None.

ITEM 15. CONTROLS AND PROCEDURES**(a) Disclosure controls and procedures**

Our interim chief executive officer and chief financial officer, after evaluating the effectiveness of our disclosure controls and procedures as of December 31, 2016, has 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 assessed the effectiveness of our internal control over financial reporting as of December 31, 2016. 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, 2016.

(c) Attestation Report of the Registered Public Accounting Firm

Not applicable.

(d) Changes in internal control over financial reporting

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

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

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

ITEM 16B. CODE OF ETHICS

Our board of directors has adopted a code of conduct (which was amended in March 2016) applicable to all of our directors, officers and employees as required by the NASDAQ Listing Rules, which also complies with the definition of a "code of ethics" set out in Section 406(c) of the Sarbanes-Oxley Act of 2002. A copy of the code of ethics can be found on our website at: <http://www.perion.com/governance-documents>.

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):

	2015	2016
Audit Fees	\$ 657	\$ 663
Tax Fees	239	183
Audit Related fees	145	120
Total	\$ 1,041	\$ 966

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

Audit-related fees principally include due diligence in connection with acquisitions and accounting consultation.

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

All other fees principally include advisory services.

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

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

None.

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

Not applicable.

ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

Not applicable.

ITEM 16G. CORPORATE GOVERNANCE

We are a foreign private issuer whose ordinary shares are listed on the NASDAQ Global 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 issuer discloses that it does not follow such listing requirement and describes the home country practice followed in its reports filed with the SEC. Below is a concise summary of the significant ways in which our corporate governance practices differ from the corporate governance requirements of NASDAQ applicable to domestic U.S. listed companies:

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

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

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

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

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

Annual Meetings. While the NASDAQ Listing Rules require that listed companies hold a shareholder meeting in each calendar year, our 2016 annual meeting was held on January 5, 2017, in order to finalize the agenda and provide the requisite 35-day notice under Israeli law.

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

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

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

Not applicable.

ITEM 17. FINANCIAL STATEMENTS

Not applicable.

ITEM 18. FINANCIAL STATEMENTS

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

PERION NETWORK LTD. AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2016

IN U.S. DOLLARS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

TO THE SHAREHOLDERS AND BOARD OF DIRECTORS OF

PERION NETWORK LTD.

We have audited the accompanying consolidated balance sheets of Perion Network Ltd. ("the Company") and its subsidiaries as of December 31, 2015 and 2016, and the related consolidated statements of income (operations), comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2016. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries at December 31, 2015 and 2016, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles.

Tel-Aviv, Israel
March 7, 2017

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

CONSOLIDATED BALANCE SHEETS

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

	December 31,	
	2015	2016
Assets		
Current Assets:		
Cash and cash equivalents	\$ 17,519	\$ 23,962
Short-term bank deposits	42,442	8,414
Accounts receivable (net of allowance of \$1,063 and \$789 at December 31, 2015 and 2016, respectively)	66,662	71,346
Prepaid expenses and other current assets	17,396	10,036
Total Current Assets	144,019	113,758
Property and equipment, net	12,714	14,205
Intangible assets, net	66,072	44,018
Goodwill	203,693	190,737
Deferred taxes	12,344	4,117
Other assets	3,456	1,617
Total Assets	\$ 442,298	\$ 368,452
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable	\$ 40,388	\$ 38,293
Accrued expenses and other liabilities	22,857	17,466
Short-term loans and current maturities of long-term and convertible debt	23,756	17,944
Deferred revenues	7,731	5,354
Payment obligation related to acquisitions	11,893	7,653
Total Current Liabilities	106,625	86,710
Long-Term Liabilities:		
Long-term debt, net of current maturities	46,920	37,928
Convertible debt, net of current maturities	28,371	21,862
Payment obligation related to acquisitions	37,231	-
Deferred taxes	19,456	8,087
Other long-term liabilities	3,858	5,721
Total Liabilities	242,461	160,308
Commitments and Contingencies		
Shareholders' Equity:		
Ordinary shares of ILS 0.01 par value - Authorized: 120,000,000 shares; Issued: 76,157,506 and 77,569,088 shares at December 31, 2015 and 2016, respectively; Outstanding: 75,811,487 and 77,223,069 shares at December 31, 2015 and 2016, respectively	206	210
Additional paid-in capital	227,258	234,831
Treasury shares at cost (346,019 shares at December 31, 2015 and 2016)	(1,002)	(1,002)
Accumulated other comprehensive loss	(794)	(265)
Accumulated deficit	(25,831)	(25,630)
Total Shareholders' Equity	199,837	208,144
Total Liabilities and Shareholders' Equity	\$ 442,298	\$ 368,452

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,		
	2014	2015	2016
Revenues:			
Search and other	\$ 343,655	\$ 188,897	\$ 172,683
Advertising	45,076	32,053	140,111
Total Revenues	388,731	220,950	312,794
Costs and Expenses:			
Cost of revenues	10,950	7,877	16,515
Customer acquisition costs and media buy	174,575	91,194	140,210
Research and development	37,427	21,692	26,528
Selling and marketing	20,792	22,886	58,572
General and administrative	36,730	31,064	32,916
Depreciation and amortization	21,321	11,422	25,977
Impairment, net of change in fair value of contingent consideration	19,941	72,785	-
Restructuring charges	3,981	1,052	728
Total Costs and Expenses	325,717	259,972	301,446
Income (Loss) from Operations	63,014	(39,022)	11,348
Financial expenses, net	2,888	1,939	8,288
Income (Loss) before Taxes on Income	60,126	(40,961)	3,060
Taxes on income	10,816	697	212
Net Income (Loss) from Continuing Operations	49,310	(41,658)	2,848
Net loss from discontinued operations	6,484	26,999	2,647
Net Income (Loss)	\$ 42,826	\$ (68,657)	\$ 201
Net Earnings (Loss) per Share - Basic:			
Continuing operations	\$ 0.72	\$ (0.58)	\$ 0.04
Discontinued operations	\$ (0.09)	\$ (0.38)	\$ (0.04)
Net income (Loss)	\$ 0.63	\$ (0.96)	\$ 0.00*)
Net Earnings (Loss) per Share – Diluted:			
Continuing operations	\$ 0.67	\$ (0.58)	\$ 0.04
Discontinued operations	\$ (0.09)	\$ (0.38)	\$ (0.04)
Net income (Loss)	\$ 0.58	\$ (0.96)	\$ 0.00*)
Weighted average number of shares – Basic:			
Continuing and Discontinued operations	68,213,209	71,300,432	76,560,454
Weighted average number of shares – Diluted:			
Continuing and Discontinued operations	70,327,411	71,300,432	76,673,803

*) Less than \$0.01

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

U.S. dollars in thousands

	Year ended December 31,		
	2014	2015	2016
Net income (Loss)	\$ 42,826	\$ (68,657)	\$ 201
Other comprehensive income (loss):			
Change in foreign currency translation adjustment	-	(822)	521
Cash Flow Hedge:			
Unrealized gain (loss) from cash flow hedges	(62)	206	175
Less: reclassification adjustment for net gain (loss) included in net income (loss)	62	(178)	(167)
Net change	-	28	8
Other comprehensive income (loss)	-	(794)	529
Comprehensive Income (Loss)	\$ 42,826	\$ (69,451)	\$ 730

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

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

	Common stock		Additional paid-in capital	Accumulated Other Comprehensive income (loss)	Retained earnings (Accumulated deficit)	Treasury shares	Total shareholders' equity
	Number of Shares	\$	\$	\$	\$	\$	\$
Balance as of December 31, 2013	54,753,582	147	10,882	-	-	(1,002)	10,027
Issuance of shares related to acquisitions	13,124,100	38	171,514	-	-	-	171,552
Acquisition related expenses paid by the shareholders	-	-	3,060	-	-	-	3,060
Contribution by shareholders	-	-	1,803	-	-	-	1,803
Stock-based compensation	-	-	15,145	-	-	-	15,145
Exercise of stock options	1,324,749	4	1,580	-	-	-	1,584
Net income	-	-	-	-	42,826	-	42,826
Balance as of December 31, 2014	69,202,431	189	203,984	-	42,826	(1,002)	245,997
Issuance of shares related to acquisitions	1,798,837	5	5,574	-	-	-	5,579
Issuance of shares in private placement, net of issuance cost of \$105	4,436,898	11	10,009	-	-	-	10,020
Stock-based compensation	-	-	7,679	-	-	-	7,679
Exercise of stock option and vesting of restricted stock units	373,321	1	12	-	-	-	13
Other comprehensive loss	-	-	-	(794)	-	-	(794)
Net loss	-	-	-	-	(68,657)	-	(68,657)
Balance as of December 31, 2015	75,811,487	206	227,258	(794)	(25,831)	(1,002)	199,837
Issuance of shares related to acquisitions	290,981	1	674	-	-	-	675
Issuance of shares related to price adjustment of private placement	782,981	2	(2)	-	-	-	-
Stock-based compensation	-	-	6,900	-	-	-	6,900
Exercise of stock option and vesting of restricted stock units	337,620	1	1	-	-	-	2
Other comprehensive income	-	-	-	529	-	-	529
Net income	-	-	-	-	201	-	201
Balance as of December 31, 2016	77,223,069	210	234,831	(265)	(25,630)	(1,002)	208,144

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,		
	2014	2015	2016
Operating activities:			
Net income (loss)	\$ 42,826	\$ (68,657)	\$ 201
Loss from discontinued operations, net	(6,484)	(26,999)	(2,647)
Net income (loss) from continuing operations	<u>49,310</u>	<u>(41,658)</u>	<u>2,848</u>
Adjustments required to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	21,321	11,422	25,977
Impairment of intangible assets and goodwill	19,941	79,349	-
Restructuring costs related to impairment of property and equipment	632	124	254
Stock-based compensation expense	13,769	6,738	6,844
Issuance of ordinary shares related to employees' retention	-	63	-
Foreign currency translation	-	(347)	980
Acquisition related expenses paid by shareholders	3,060	-	-
Accretion of payment obligation related to acquisition	1,067	311	320
Accrued interest, net	655	37	406
Deferred taxes, net	(13,851)	(8,973)	(3,268)
Accrued severance pay, net	392	238	214
Change in payment obligation related to acquisitions	713	(5,937)	983
Fair value revaluation - convertible debt	(2,566)	175	1,350
Loss from sale of property and equipment	121	17	149
Net changes in operating assets and liabilities:			
Accounts receivable, net	(23,568)	3,362	(5,333)
Prepaid expenses and other	(5,020)	(3,402)	8,613
Accounts payable	2,228	(3,725)	(1,702)
Accrued expenses and other liabilities	9,261	(13,250)	(2,486)
Deferred revenues	(407)	(772)	(2,365)
Net cash provided by continuing operating activities	<u>77,058</u>	<u>23,772</u>	<u>33,784</u>
Net cash used in discontinued operating activities	<u>(5,016)</u>	<u>(6,203)</u>	<u>(3,329)</u>
Net cash provided by operating activities	\$ 72,042	\$ 17,569	\$ 30,455
Investing activities:			
Purchases of property and equipment	\$ (10,882)	\$ (2,029)	\$ (1,504)
Proceeds from sale of property and equipment	58	24	151
Capitalization of development costs	-	(4,005)	(4,591)
Change in restricted cash, net	(202)	50	647
Short-term deposits, net	(15,000)	(27,442)	34,028
Cash paid for acquisition, net of cash acquired	<u>19,042</u>	<u>(87,044)</u>	<u>-</u>
Net cash provided by (used in) continuing investing activities	<u>(6,984)</u>	<u>(120,446)</u>	<u>28,731</u>
Net cash provided by discontinued investing activities	<u>-</u>	<u>-</u>	<u>-</u>
Net cash provided by (used in) investing activities	\$ (6,984)	\$ (120,446)	\$ 28,731
Financing activities:			
Issuance of shares in private placement, net	\$ -	\$ 10,020	\$ -
Exercise of stock options and restricted share units	1,584	13	2
Contribution by shareholders	585	-	-
Payments made in connection with acquisition	(2,545)	(1,534)	(29,537)
Proceeds from the issuance of convertible debt	37,852	-	-
Proceeds from short-term loans	-	13,000	40,000
Repayment of short-term loans	-	-	(46,000)
Repayment of convertible debt	-	-	(7,620)
Repayment of long-term loans	<u>(2,300)</u>	<u>(2,300)</u>	<u>(9,452)</u>
Net cash provided by (used in) continuing financing activities	\$ 35,176	\$ 19,199	\$ (52,607)
Effect of exchange rate changes on cash and cash equivalents	-	14	(136)
Net increase (decrease) in cash and cash equivalents	\$ 105,250	\$ (77,461)	\$ 9,772
Decrease in cash and cash equivalents - discontinued activities	<u>(5,016)</u>	<u>(6,203)</u>	<u>(3,329)</u>
Cash and cash equivalents at beginning of year	<u>949</u>	<u>101,183</u>	<u>17,519</u>
Cash and cash equivalents at end of year	\$ 101,183	\$ 17,519	\$ 23,962

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		
	2014	2015	2016
<u>Supplemental Disclosure of Cash Flow Activities:</u>			
<u>Cash paid during the year for:</u>			
Income taxes	\$ 20,855	\$ 21,340	\$ 3,976
Interest	\$ 260	\$ 2,260	\$ 5,678
<u>Non-cash investing and financing activities:</u>			
Issuance of shares in connection with acquisitions	\$ 171,552	\$ 5,579	\$ 673
Issuance of shares in private placement	\$ -	\$ -	\$ 2
Contribution by shareholders	\$ 1,218	\$ -	\$ -
Acquisition related expenses paid by shareholders	\$ 3,060	\$ -	\$ -
Stock-based compensation capitalized as part of capitalization of software development costs	\$ -	\$ 187	\$ 14
Purchase of property and equipment on credit	\$ 1,205	\$ 312	\$ 322

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

- a. Perion Network Ltd. ("Perion") and its wholly-owned subsidiaries (collectively referred to as the "Company"), is a global technology company, providing high-quality advertising solutions to brands and publishers, high-impact ad formats that capture consumer attention and drives engagement, branded search providing publishers with engagement and monetization solutions and a social programmatic platform.
- b. On January 2, 2014, the Company purchased all the outstanding shares of ClientConnect Ltd. ("ClientConnect"), in a stock-for-stock transaction. The ClientConnect acquisition has been reflected in the financial statements as a reverse acquisition of all of the outstanding shares and options by ClientConnect using the acquisition method of accounting whereby ClientConnect is the deemed accounting acquirer and Perion is the deemed accounting acquiree.

On February 10, 2015, the Company completed the acquisition of Make Me Reach SAS ("MMR") and on November 30, 2015, completed the acquisition of Interactive Holding Corp and its subsidiaries (collectively referred to as "Undertone").

- c. In March 2016, the Company decided to discontinue the operations of the mobile self-serve side of the business and put out for sale the mobile engagement business, both under the Growmobile business. Certain parts of the mobile marketing platform were redeployed so that it no longer functions as an independent business. In August 2016, the Company completed the sale of mobile engagement business. Accordingly, the statements of income and statements of cash flows, related to the mobile self-serve and mobile engage operations are classified as discontinued operations for all periods presented. As of December 31, 2015 and 2016, the carrying amounts of the assets and liabilities discontinued were immaterial (see Note 2).

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements include the accounts of Perion and its 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 accounts receivable, intangible assets and goodwill, fair values and useful lives of intangible assets, fair values of stock-based awards, allowance for doubtful accounts, realizability of deferred tax assets, income taxes, and contingent liabilities, among others. Such estimates are based on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of the Company's assets and liabilities.

Financial statements in U.S. dollars

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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 the applicable year. The resulting translation adjustments are reported as an accumulated other comprehensive income (loss) component of shareholders' equity.

Cash and cash equivalents and short-term deposits

The Company considers all short-term, highly liquid and unrestricted cash balances, with stated maturities of three months or less from date of purchase, as cash equivalents. Short-term deposits are bank deposits with maturities of more than three months but less than one year. The short-term deposits as of December 31, 2015 and 2016 are denominated primarily in USD and bear interest at an average annual rate of 0.72% and 1.12%, respectively.

Restricted cash

Restricted cash is comprised primarily of security deposits that are held to secure the Company's hedging activity, lease obligations and certain letters of credit associated with lease obligations. Restricted cash in the amount of \$646 and \$1,184, as of December 31, 2015 and 2016, respectively, are included under prepaid expenses and other current assets.

Restricted cash in the amount of \$1,182, as of December 31, 2015, is included under other assets in the accompanying balance sheets.

Accounts receivable and allowance for doubtful accounts

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

Property and equipment

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

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

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

In 2014 and 2015, the Company recorded impairment charges of \$19,941 and \$8,471, respectively, with respect to intangible assets subject to amortization. No such impairment charges were recorded in 2016 (see Note 6).

In addition, in connection with the restructuring plans of the Company in 2014 and 2015, the Company recorded, an impairment charge of \$632 and \$124, respectively, related to its property and equipment.

Goodwill and other intangible assets

Goodwill reflects the excess of the purchase price of business acquired over the fair value of net assets acquired. Goodwill is not amortized but instead is tested for impairment, in accordance with ASC 350, "Intangibles – Goodwill and Other", at the reporting unit level (as of December 31, 2016, the Company had two reporting units – Search monetization and Undertone), 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. The first step, identifying a potential impairment, compares the fair value of the reporting unit with its carrying amount. If the carrying amount exceeds its fair value, the second step would need to be performed; otherwise, no further step is required. The second step, measuring the impairment loss, compares the implied fair value of the goodwill with the carrying amount of the goodwill. Any excess of the carrying amount over the applied fair value is recognized as an impairment loss, and the carrying value of goodwill is written down to fair value.

The Company determined that certain indicators of potential impairment existed during 2015 and 2016, which triggered goodwill impairment analysis for its reporting units. These indicators included a decrease in the Company's share price and lower than expected sales and cash flow, as well as management decisions to abandon certain R&D projects. Based on the goodwill assessment for the search monetization reporting unit and Grow Mobile reporting unit, in 2015, the Company determined that the carrying amount of the reporting units exceeds their fair value and recorded an impairment of \$87,043 (out of which \$16,165 is included as a loss from discontinued operation) to its goodwill. No such impairment charges were recorded in 2014 or in 2016.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

Deferred Financing Costs

Direct and incremental costs related to the issuance of debt are capitalized as deferred financing costs and are deducted from the carrying amount of that debt in the consolidated balance sheets.

The Company amortizes deferred financing costs using the effective-interest method and records such amortization as interest expense.

Revenue recognition

The Company generates revenues primarily from two major sources:

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

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

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

The Company recognizes revenue when all four revenue recognition criteria have been met: persuasive evidence of an arrangement exists; services are rendered; the fee or price charged is fixed or determinable; and collectability is reasonably assured. Deferred revenue is recorded when payments are received from customers in advance of the Company's rendering of services.

Cost of revenues

Cost of revenues consists primarily of expenses associated with the operation of the Company's data centers, including depreciation, labor, energy and bandwidth costs, amortization of acquisition-related intangible assets, as well as content acquisition costs. The direct cost relating to search revenues is immaterial.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Customer acquisition costs and media buy

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

Research and development costs

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

The Company capitalizes certain internal and external software development costs, consisting primarily of direct labor associated with creating the internally developed software. Software development projects generally include three stages: (i) the preliminary project stage (all costs expensed as incurred); (ii) the application development stage (costs are capitalized) and (iii) the post implementation/operation stage (all costs expensed as incurred). The costs capitalized in the application development stage primarily include the costs of designing the application, coding and testing of the system. Capitalized costs are amortized using the straight-line method over the estimated useful life of the software, generally three years, once it is ready for its intended use. The Company believes that the straight-line recognition method best approximates the manner in which the expected benefit will be derived. Management evaluates the useful lives of these assets on an annual basis and tests for impairment whenever events or changes in circumstances occur that could impact the recoverability of these assets. As a result of changes in circumstances, management decided to abandon certain projects and therefore recorded an impairment charge of \$3,390 in 2015, which is included as a loss from discontinued operation.

Capitalized software development costs, net of accumulated amortization of \$557 and \$4,393 are included in property and equipment in the consolidated balance sheets as of December 31, 2015 and 2016, respectively (see Note 5).

Income taxes

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Severance pay

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

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

Severance expenses from continuing operations for the years ended December 31, 2014, 2015 and 2016 amounted to \$3,330, \$2,310 and \$2,917, respectively. The balances of severance deposits and accrued severance pay are immaterial and included in other assets and other long-term liabilities on the accompanying balance sheets, respectively.

Employee benefit plan

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

Total employer 401(k) contributions for the years ended December 31, 2014, 2015 and 2016 were \$116, \$247 and \$1,018, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)*Net earnings per share*

In accordance with ASC 260, "Earnings Per Share", basic net earnings per share ("Basic EPS") is computed by dividing net earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. Diluted net earnings per share ("Diluted EPS") reflects the potential dilution that could occur if stock options and other commitments to issue ordinary shares were exercised or equity awards vested, resulting in the issuance of ordinary shares that could share in the net earnings of the Company.

The weighted average number of ordinary shares related to the outstanding options, restricted shares, convertible debt and warrants excluded from the calculations of diluted net earnings per ordinary share, as these securities are anti-dilutive, was 3,766,080, 14,179,439 and 10,700,363 for the years ended December 31, 2014, 2015 and 2016, respectively.

Concentrations of credit risk

Financial instruments, which potentially subject the Company to a concentration of credit risk, consist primarily of cash and cash equivalents, bank deposits, restricted cash and accounts receivable.

The majority of the Company's cash and cash equivalents, bank deposits and restricted cash are invested in USD instruments with major banks in the U.S. and Israel. Deposits in the U.S. may be in excess of insured limits and are not insured in other jurisdictions. Generally, these deposits may be redeemed upon demand and, therefore, bear minimal risk.

The Company's major customers are financially sound, and the Company believes low credit risk is associated with these customers. To date, the Company has not experienced any material bad debt losses. Total expenses for doubtful debts during 2014, 2015 and 2016 amounted to \$1,035, \$104 and \$152, respectively.

Stock-based compensation

The Company accounts for stock-based compensation under ASC 718, "Compensation - Stock Compensation", which requires the measurement and recognition of compensation expense based on estimated fair values for all share-based payment awards made to employees and directors. ASC 718 requires companies to estimate the fair value of equity-based awards on the date of grant, using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as an expense over the requisite service periods in the Company's consolidated statement of income. ASC 718 requires forfeitures to be estimated at the time of grant, and revised if necessary in subsequent periods, if actual forfeitures differ from those estimates.

The Company recognizes compensation expenses for the value of its awards, which have graded vesting based on service conditions, using the straight-line method, over the requisite service period of each of the awards, net of estimated forfeitures. Estimated forfeitures are based on actual historical pre-vesting forfeitures. For performance-based stock units, the Company recognizes compensation expenses for the value of such awards, if and when the Company concludes that it is probable that a performance condition will be achieved based on the accelerated attribution method over the requisite service period. The Company should reassess the probability of vesting at each reporting period for awards with performance conditions and adjust compensation cost based on its probability assessment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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 stock-based awards using the Binomial option-pricing model.

The following table presents the various assumptions used to estimate the fair value of the Company's stock-based awards granted to employees and directors in the periods presented:

	Year ended December 31		
	2014	2015	2016
Risk-free interest rate	0.10% - 1.72%	0.17% - 1.76%	0.46% - 1.73%
Expected volatility	44.44% - 51.62%	43.49% - 50.31%	49.49% - 53.54%
Early exercise factor	100% - 256%	160% - 210%	150% - 200%
Forfeiture rate post vesting	0% - 15%	0% - 18%	5% - 20%
Dividend yield	0%	0%	0%

The expected volatility is calculated based on the actual historical stock price movements of the Company's stock.

The expected option term represents the period that the Company's stock options are expected to be outstanding.

The early exercise factor and the forfeiture rate post-vesting are calculated based on the Company's estimated early exercise and post-vesting forfeiture multiples, which are based on comparable companies and on actual historical data.

The risk-free interest rate is based on the yield from U.S. Treasury zero-coupon bonds, with a term which is equivalent to the expected term of the stock-based awards. The dividend yield is based on the current decision of the Company's management not to distribute any dividends.

The fair value of restricted stock units ("RSU") is based on the market value of the underlying shares on the date of grant.

Derivative instruments

The Company accounts for derivatives and hedging based on ASC 815, "Derivatives and Hedging", which requires recognizing all derivatives on the balance sheet at fair value. If the derivatives meet the definition of a cash flow hedge and are so designated, depending on the nature of the hedge, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income and reclassified into earnings in the same period, or periods, during which the hedged transaction affects earnings. The ineffective portion of a derivative's change in fair value, if any, is recognized in earnings, as well as gains and losses from a derivative's change in fair value that are not designated as hedges are recognized in earnings immediately.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Starting 2014, in order to mitigate the potential adverse impact on cash flows resulting from fluctuations in the exchange rate of the new Israeli shekels ("ILS"), the Company started to hedge portions of its forecasted expenses denominated in ILS with swap and options contracts. In addition, the Company has entered into a cross currency interest rate swap agreement in order to transform cash flow in ILS into USD of interest payments and principal as derived from the Company's convertible debt conditions (see Note 10). 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.

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.

To protect against the increase in value of forecasted foreign currency cash flow resulting mainly from salaries and related benefits and taxes paid in ILS during the year, the Company hedges portions of its anticipated payroll denominated in ILS for a period of one to twelve months with forward and options contracts (the "Hedging Contracts"). Accordingly, when the USD strengthens against the ILS, the decline in present value of future ILS currency expenses is offset by losses in the fair value of the Hedging Contracts. Conversely, when the USD weakens, the increase in the present value of future ILS expenses is offset by gains in the fair value of the Hedging Contracts. These Hedging Contracts are designated as cash flow hedges.

Additionally, in order to mitigate the potential adverse impact of the fluctuations in the ILS-USD exchange rate in connection with the convertible debt (see Note 10), the Company has entered into a cross currency interest rate SWAP agreement (the "SWAP") in order to hedge the future interest and principal payments, which are all denominated in ILS. However, since the convertible debt is measured at fair value at each reporting date, the SWAP does not qualify and was not designated as a cash flow hedge under ASC 815.

In order to limit the Company's interest expenses derived from the secured credit agreement in which the Company entered concurrently with the closing of the Undertone acquisition (see Note 6), the Company has purchased a Cap Option for the interest amounts expected to be paid till June 2018. The cap option is designated as cash flow hedge under ASC 815.

The swap contracts were not designated as hedging instruments and therefore gains or losses resulting from the change of their fair value are recognized in "financial 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The notional value of the Company's derivative instruments as of December 31, 2015 and 2016, amounted to \$57,052 and \$72,569, respectively. Notional values in USD are translated and calculated based on the spot rates for options and swap. Gross notional amounts do not quantify risk or represent assets or liabilities of the Company; however, they are used in the calculation of settlements under the contracts.

Fair value of financial instruments

The carrying amounts of financial instruments carried at cost, including cash and cash equivalents, short-term deposits, restricted cash, accounts receivable, prepaid expenses and other assets, accounts payable, accrued expenses and other liabilities approximate their fair value due to the short-term maturities of such instruments.

The Company follows the provisions of ASC No. 820, "Fair Value Measurement" ("ASC 820"), which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

In determining a fair value, the Company uses various valuation approaches. ASC 820 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing an asset or liability, based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect assumptions that market participants would use in pricing an asset or liability, based on the best information available under given circumstances.

The hierarchy is broken down into three levels, based on the observability of inputs and assumptions, as follows:

- **Level 1** - Observable inputs obtained from independent sources, such as quoted prices for identical assets and liabilities in active markets.
- **Level 2** - Other inputs that are directly or indirectly observable in the market place.
- **Level 3** - Unobservable inputs which are supported by little or no market activity.

Treasury shares

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

Business combinations

The Company accounted for business combination in accordance with ASC 805, "Business Combinations". ASC 805 requires recognition of assets acquired, liabilities assumed, and any non-controlling interest at the acquisition date, measured at their fair values as of that date. Any excess of the fair value of net assets acquired over purchase price is allocated to goodwill and any subsequent changes in estimated contingencies are to be recorded in earnings. In addition, changes in valuation allowance related to acquired deferred tax assets and in acquired income tax position are to be recognized in earnings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Acquisition related costs are expensed to the statement of income in the period incurred.

Discontinued operations

Under ASC 205, "Presentation of Financial Statements - Discontinued Operation", when a component of an entity, as defined in ASC 205, has been disposed of or is classified as held for sale, the results of its operations, including the gain or loss on its disposal are classified as discontinued operations and the assets and liabilities of such component are classified as assets and liabilities attributed to discontinued operations, provided that the operations, assets and liabilities and cash flows of the component have been eliminated from the entity's consolidated operations and the entity will no longer have any significant continuing involvement in the operations of the component.

In August 2016, the Company completed the sale of the GME business, including the intellectual property, know-how and technology, for total consideration of \$1,750, which was included in net loss from discontinued operations in the consolidated statement of income for the year ended December 31, 2016.

The results of the discontinued operations, including prior periods' comparable results, which have been retroactively reclassified as a separate line items in the statements of income, are presented below:

	Year ended December 31,		
	2014	2015	2016*
Costs and expenses	7,719	7,444	5,192
Impairment of intangible assets and goodwill	-	19,555	-
Gain on disposal of the discontinued operations	-	-	(1,750)
Loss before taxes on income	(7,719)	(26,999)	(3,442)
Taxes on income	1,235	-	795
Total net loss on discontinued operations	<u>\$ (6,484)</u>	<u>\$ (26,999)</u>	<u>\$ (2,647)</u>

* Represent the results of the discontinued operations until their disposal.

Depreciation expenses from discontinued operations totaled \$92, \$550 and \$71, for the years ended December 31, 2014, 2015 and 2016, respectively.

Reclassifications

Certain financial statement data for prior years has been reclassified to conform to current year financial statement presentation.

Recent Accounting Pronouncements

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

- In March 2016, by ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which clarifies the implementation guidance on principal versus agent considerations. The guidance includes indicators to assist an entity in determining whether it controls a specified good or service before it is transferred to the customers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- In April 2016, by 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, that clarified two aspects of ASC 606, identifying performance obligations and the licensing implementation guidance, while retaining the related principles of those areas.
- In May 2016, by ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients. ASU 2016-12 address certain issues in the guidance on assessing collectability, presentation of sales taxes, noncash consideration, and completed contracts and contract modifications at transition.

As currently issued and amended, ASC 606 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period, though early adoption is permitted for annual reporting periods beginning after December 15, 2016 using either of two methods: (1) full retrospective application or (2) modified retrospective application. The Company's management is currently evaluating the impact that the new principal versus agent guidance may have on the presentation of its revenue arrangements, and the expected impact on its business processes, systems and controls, but had not completed its evaluation. The Company expect to complete its assessment process during 2017 and adopt the new standard on January 1, 2018. The Company did not select yet the transition method of the new standard.

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

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, Compensation-Stock Compensation (Topic 718): Improvement to Employee Share-based Payment Accounting (ASU 2016-09), to simplify the accounting for share-based payment transactions, including the income tax consequences, an option to recognize gross share-based compensation expense with actual forfeitures recognized as they occur, as well as certain classifications on the statement of cash flows. This guidance will be effective for the Company in the first quarter of 2017, and early adoption is permitted. The Company is currently evaluating the effect that this guidance will have on its consolidated financial statements.

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

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

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, 2016:

	Fair value measurements using input type			
	Level 1	Level 2	Level 3	Total
Assets:				
Derivative assets	\$ -	\$ 1,117	\$ -	\$ 1,117
Total financial assets	\$ -	\$ 1,117	\$ -	\$ 1,117
Liabilities:				
Payment obligation in connection with acquisitions	\$ -	\$ -	\$ 7,653	\$ 7,653
Derivative liabilities	-	84	-	84
Convertible debt	29,526	-	-	29,526
Total financial liabilities	\$ 29,526	\$ 84	\$ 7,653	\$ 37,263

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 3: FAIR VALUE OF FINANCIAL INSTRUMENTS (Cont.)

The following table present assets and liabilities measured at fair value on a recurring basis as of December 31, 2015:

	Fair value measurements using input type			
	Level 1	Level 2	Level 3	Total
Assets:				
Derivative assets	\$ -	\$ 608	\$ -	\$ 608
Total financial assets	<u>\$ -</u>	<u>\$ 608</u>	<u>\$ -</u>	<u>\$ 608</u>
Liabilities:				
Payment obligation in connection with acquisitions	\$ -	\$ -	\$ 49,124	\$ 49,124
Derivative liabilities	-	214	-	214
Convertible debt	35,463	-	-	35,463
Total financial liabilities	<u>\$ 35,463</u>	<u>\$ 214</u>	<u>\$ 49,124</u>	<u>\$ 84,801</u>

The following table summarizes the changes in the Company's liabilities measured at fair value using significant unobservable inputs (Level 3), during the year ended December 31, 2015 and 2016:

Total fair value as of January 1, 2015	\$ 13,645
Accretion of contingent liability related to acquisition	311
Change in fair value of contingent consideration related to acquisition	(6,564)
Settlements	(2,500)
Fair value of payment obligation in connection with Undertone acquisition	44,023
Reclassification to accrued expenses	(189)
Change in fair value recognized in earnings with respect to the employees of Grow Mobile	398
Total fair value as of December 31, 2015	\$ 49,124
Accretion and interest of payment obligation related to acquisition	\$ 1,303
Settlements	(7,537)
Change to payment obligation as a result of working capital adjustment	309
Amendment to the merger agreement	(35,546)
Total fair value as of December 31, 2016	\$ 7,653

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 4: ACQUISITIONS

a. Interactive Holding Corp.

On November 30, 2015, The Company executed an Agreement and Plan of Merger (the "Merger Agreement") pursuant to which the Company consummated, on the same date, the acquisition of 100% of the shares of Interactive Holding Corp., a Delaware corporation, and its subsidiaries (collectively referred to as "Undertone") for a total preliminary purchase price of \$133,101, comprised of the following:

1. \$89,078 paid in cash on November 30, 2015;
2. \$1,182 paid in cash on January 29, 2016;
3. An amount of \$2,143 excess in tax advances paid in 2016 upon refund from tax authorities;
4. An amount of \$3,000 to be paid in installments over the period ending September 2017, for which a liability of \$2,804 was recorded at fair value (\$2,820 at December 31, 2015). In 2016 an amount of \$1,000 was paid after which, the fair value of the remaining liability is \$1,939 as of December 31, 2016;
5. \$16,000 were retained as a holdback to cover potential claims until May 31, 2017, for which a liability of \$14,391 was recorded at fair value (\$14,476 and \$14,129 at December 31, 2015 and August 2, 2016, respectively), and an amount of \$20,000, deferred consideration payment, bearing 10% annual interest, to be paid on November 2020, for which a liability of \$22,005 was recorded at fair value (\$21,859 and \$ 21,417 at December 31, 2015 and August 2, 2016, respectively).
6. Working capital adjustment in the amount of \$1,498.

In addition to the purchase price detailed above, the Company incurred acquisition related costs totaling \$4,804, which are included in general and administrative expenses. Acquisition related costs include banking, legal and accounting fees, as well as other external costs directly related to the acquisition.

Adjustments to purchase price:

On August 2, 2016, the Company executed an amendment to the Merger Agreement, pursuant to which, the Company paid \$22,000 and eliminated \$35,546 at fair value, of obligations. Under said amendment, the Company reserved its right to claim indemnification only for certain material potential claims until May 2017. As a result of the amendment, the Company reduced the purchase price by \$13,546.

Final purchase price amounted to \$119,768 including a working capital final adjustment of \$213 in 2016.

Adjustments to the purchase price allocation:

As of December 31, 2015, the estimated fair values were preliminary and based on the information that was available as of the closing date. In 2016, the Company recognized an adjustment of \$590 to the goodwill balance, as a result of changes made to the preliminary amounts recognized for assets and liabilities, during the measurement period. As of December 31, 2016, the Company finalized the valuation and completed the purchase price allocation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 4: ACQUISITIONS (Cont.)

The final allocation of the purchase price, to assets acquired and liabilities assumed, is as follows:

Cash and cash equivalents	\$	7,378
Accounts receivable		38,493
Prepaid expenses and other assets		4,427
Long term restricted cash		1,182
Property and equipment		1,905
Deferred taxes		815
Accounts payable		(23,152)
Accrued expenses and other liabilities		(11,083)
Deferred revenues		(1,047)
Long term loan, including current maturities		(48,601)
Deferred tax liability		(20,241)
Intangible assets		63,200
Goodwill		106,492
Total purchase price	\$	<u>119,768</u>

The main reason for the acquisition was to continue the strategic evolution of the Company into a global technology company delivering high-quality advertising solutions to brands and publishers. The desired strategic benefits were to create a differentiated independent ad tech platform with significant scale and profitability, add noteworthy relationships with premium brands, agencies and publishers, enhance mobile footprint, extend programmatic capabilities, broaden product suite with the addition of proprietary, high-impact creative formats and substantially diversify revenue base.

Under business combination accounting principles, the total purchase price was allocated to Undertone's net tangible and intangible assets based on their estimated fair values as set forth below. The excess of the purchase price over the net tangible and identifiable intangible assets was recorded as goodwill. The goodwill is attributable primarily to the strategic opportunities aforementioned. The related goodwill and intangible assets are not deductible for tax purposes.

Intangible assets:

The fair value of intangible assets was based on the market participant approach to valuation, performed by a third-party valuation firm, using estimates and assumptions provided by management.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 4: ACQUISITIONS (Cont.)

The following table sets forth the components of intangible assets associated with the Undertone acquisition:

		<u>Estimated useful life</u>
Acquired technology (1)	\$ 19,500	5 years
Customer relationships (2)	30,000	6 years
Backlog (3)	4,200	less than 1 year
Tradename (4)	9,500	4 years
Total amount allocated to intangible assets	<u>\$ 63,200</u>	

(1) Acquired technology represents the combined technology for delivering and administering Undertone's attention-grabbing, full-page video advertisements and other advertising formats.

(2) Customer relationships represent the existing relationships and agreements with Undertone's brand advertisers.

(3) Backlog represents customer insertion orders that are highly probable to be turned into revenues in the near future.

(4) Tradename represents trade names and logos under which Undertone markets and sells its services.

b. Make Me Reach SAS

On February 10, 2015, the Company consummated the acquisition of 100% of the shares of Make Me Reach SAS, a private French company headquartered in Paris, France ("MMR"). MMR enables advertisers to efficiently and effectively scale their advertising campaigns on social media, with a specific focus on optimizing mobile ad campaigns. MMR is a Facebook Preferred Marketing Developer (PMD) and Twitter Marketing Platform Partner (MPP).

The acquisition of MMR is part of the Company's strategy to channel its future growth efforts towards the mobile advertising market, to extend its mobile marketing technology by adding the ability to advertise on social media and to provide developers a more effective mobile advertising tool. Additionally, the acquisition of MMR established the Company's first office in Europe.

The acquisition has been accounted for as a business combination under ASC No. 805, "Business Combination". The purchase price was \$6,394 in cash and \$4,378 in the form of 1,437,510 ordinary shares. In the subsequent 12 months, the Company was required to pay additional \$442 in cash and issued an additional \$442 in ordinary shares to the founder of MMR, subject to retention conditions, which were paid in full in February 2016. In addition, certain key employees of MMR were entitled to retention payments of \$144 in cash and \$63 in the form of 18,998 ordinary shares, which were paid upon closing. An additional \$266 in cash and \$208 in the form of 92,348 ordinary shares that were subject to retention conditions, were paid to such key employees in February 2016. Amounts subject to retention conditions were included as payroll expenses in the statement of operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 4: ACQUISITIONS (Cont.)

In addition, the Company incurred acquisition related costs totaling \$139, included in general and administrative expenses. Acquisition related costs include legal and accounting fees, as well as other external costs directly related to the acquisition.

The allocation of the purchase price to assets acquired and liabilities assumed was as follows:

Cash	\$	1,050
Accounts receivable		666
Prepaid expenses and other assets		86
Property and equipment		87
Accounts payable		(305)
Accrued expenses and other liabilities		(433)
Deferred revenues		(126)
Deferred tax liability		(1,159)
Intangible assets		3,454
Goodwill		7,452
		<u>7,452</u>
Total purchase price	\$	<u><u>10,772</u></u>

The following table sets forth the components of intangible assets associated with the acquisition:

		<u>Estimated useful life</u>
Acquired technology	\$ 1,261	5 years
Customer relationship	395	5 years
Distribution channel	<u>1,798</u>	5 years
Total amount allocated to intangible assets	<u><u>\$ 3,454</u></u>	

In performing the purchase price allocation, the Company considered, among other factors, analysis of historical financial performance, the best use of the acquired assets and estimates of future performance of MMR's products. In its allocation, the Company also conducted a valuation of intangible assets based on a market participant approach to valuation using an income approach and in connection therewith considered the report of an independent third party valuation firm and estimates and assumptions provided by management.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 5: PROPERTY AND EQUIPMENT, NET

	December 31,	
	2015	2016
Cost:		
Computers and peripheral equipment	\$ 11,775	\$ 9,607
Office furniture and equipment	2,837	2,679
Leasehold improvements	6,981	7,142
Capitalized software	557	5,005
Total cost	22,150	24,433
Less: accumulated depreciation and amortization	9,436	10,228
Property and equipment, net	<u>\$ 12,714</u>	<u>\$ 14,205</u>

Depreciation and amortization of capitalized software costs from continued operations totaled \$2,583, \$2,543 and \$4,003, for the years ended December 31, 2014, 2015 and 2016, respectively.

In connection with the 2014 restructuring plan, the Company impaired leasehold improvements in the amount of \$632 relating to office space that will no longer be in use.

In connection with the 2015 restructuring plan, the Company recorded an impairment of \$159 relating to disposal of certain office furniture and equipment (see Note 16) which are included in restructuring charges in the statement of income. In addition, in connection with Growmobile platforms, the Company impaired software capitalized costs of \$3,390, which are included as a loss from discontinued operations.

During 2016, the Company capitalized software development costs of \$4,605 (including \$14 of stock-based compensation). Amortization expense for the related capitalized internally developed software in 2016 totaled \$769, and is included in Cost of revenues in the accompanying consolidated statements of operations. During 2015, the Company capitalized software development costs of \$4,192 (including \$187 of stock-based compensation). Amortization expense for the related capitalized internally developed software in 2015 totaled \$245, and is included in Net loss from discontinued operations in the accompanying consolidated statements of operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 6: GOODWILL AND OTHER INTANGIBLE ASSETS, NET

a. Goodwill

The changes in the net carrying amount of goodwill in 2015 and 2016 were as follows:

Balance as of January 1, 2015	\$ 164,092
Acquisition of MMR	7,452
Acquisition of Undertone	119,448
Impairment	(87,043)
Revaluation (foreign currency exchange)	(256)
Balance as of December 31, 2015	\$ 203,693
Final adjustments to Undertone's purchase price (see Note 4)	(12,956)
Balance as of December 31, 2016	\$ 190,737

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

b. Intangible assets, net

The following is a summary of intangible assets as of December 31, 2016:

	December 31, 2015	Amortization	OCI	Disposals	December 31, 2016
Acquired technology	\$ 30,715	\$ -	\$ (41)	\$ -	\$ 30,674
Accumulated amortization	(8,963)	(5,543)	16	-	(14,490)
Impairment	(956)	-	-	-	(956)
Acquired technology, net	20,796	(5,543)	(25)	-	15,228
Customer relationships	31,911	-	(13)	-	31,898
Accumulated amortization	(1,161)	(12,750)	6	-	(13,905)
Impairment	(91)	-	-	-	(91)
Customer relationships, net	30,659	(12,750)	(7)	-	17,902
Tradename and other	22,483	-	(59)	(4,200)	18,224
Accumulated amortization	(4,609)	(3,681)	11	4,200	(4,079)
Impairment	(3,257)	-	-	-	(3,257)
Tradename and other, net	14,617	(3,681)	(48)	-	10,888
Intangible assets, net	\$ 66,072	\$ (21,974)	\$ (80)	\$ -	\$ 44,018

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The following is a summary of intangible assets as of December 31, 2015:

	<u>December 31, 2014</u>	<u>Additions</u>	<u>Amortization</u>	<u>Impairment</u>	<u>OCI</u>	<u>Disposals</u>	<u>December 31, 2015</u>
Acquired technology	\$ 38,515	\$ 20,761	\$ -	\$ -	\$ (46)	\$ (28,515)	\$ 30,715
Accumulated amortization	(15,698)	-	(4,374)	-	2	11,107	(8,963)
Impairment	(14,347)	-	-	(4,017)	-	17,408	(956)
Acquired technology, net	8,470	20,761	(4,374)	(4,017)	(44)	-	20,796
In-process R&D	2,000	-	-	-	-	(2,000)	-
Impairment	(2,000)	-	-	-	-	2,000	-
In-process R&D, net	-	-	-	-	-	-	-
Customer relationships	3,144	30,395	-	-	(14)	(1,614)	31,911
Accumulated amortization	(903)	-	(766)	-	-	508	(1,161)
Impairment	-	-	-	(1,197)	-	1,106	(91)
Customer relationships, net	2,241	30,395	(766)	(1,197)	(14)	-	30,659
Tradename and other	11,911	15,498	-	-	(66)	(4,860)	22,483
Accumulated amortization	(2,138)	-	(3,739)	-	2	1,266	(4,609)
Impairment	(3,594)	-	-	(3,257)	-	3,594	(3,257)
Tradename and other, net	6,179	15,498	(3,739)	(3,257)	(64)	-	14,617
Intangible assets, net	\$ 16,890	\$ 66,654	\$ (8,879)	\$ (8,471)	\$ (122)	\$ -	\$ 66,072

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

	Estimated useful life
Acquired technology	3-5 years
Customer relationships	4-5 years
Tradenname and other	4-11 years

In December 2014 and 2015, the Company performed an impairment review of several intangible assets that were recognized in connection with the acquisitions of Perion (see Note 1) and Grow Mobile, respectively, which resulted in total impairment charges of \$19,941 and \$8,471 that are included in impairment, net of change in fair value of contingent consideration in the statement of income for the years ended December 31, 2014 and 2015, respectively. Related deferred tax liabilities of \$3,191 and \$2,291 have also been written off and are included in taxes on income, as tax benefit, for the years ended December 31, 2014 and 2015, respectively. Such impairments resulted primarily due to lower than anticipated sales and cash flow as well as managerial decisions to abandon certain R&D projects. No such impairment charges were recorded in 2016.

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

2017	\$ 16,197
2018	12,028
2019	9,944
2020	4,861
2021	229
Thereafter	759
	\$ 44,018

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 7: ACCRUED EXPENSES AND OTHER LIABILITIES

	December 31,	
	2015	2016
Employees and payroll accruals	\$ 10,190	\$ 7,668
Government authorities	1,850	2,929
Professional services accruals	3,171	1,812
Other accruals	3,587	3,549
Other overhead related expenses	1,592	991
Accrued restructuring charges (see note 16)	1,756	-
Hosting, software and web services accruals	497	433
Derivative liabilities	214	84
	<u>\$ 22,857</u>	<u>\$ 17,466</u>

NOTE 8: DERIVATIVES AND HEDGING ACTIVITIES

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

		December 31,	
	Balance sheet	2015	2016
Derivatives designated as hedging instruments:			
Foreign exchange forward contracts and other derivatives	"Prepaid expenses and other current assets"	\$ 242	\$ 125
	"Accrued expenses and other liabilities"	214	84
	"Accumulated other comprehensive income"	-	36
Derivatives not designated as hedging instruments:			
Foreign exchange forward contracts and other derivatives	"Prepaid expenses and other current assets"	-	\$ 20
Cross currency SWAP	"Prepaid expenses and other current assets"	\$ 366	\$ 973

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 8: DERIVATIVES AND HEDGING ACTIVITIES (Cont.)

The decrease in unrealized gains recognized in accumulated other comprehensive income on derivatives, is as follows:

	December 31,	
	2015	2016
Option contracts	\$ 206	\$ 175

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

	Gain recognized in Statements of Comprehensive Income	Statement of Income item	Gain (loss) recognized in consolidated statements of Income		
	Year ended December 31, 2016		Year ended December 31,		
			2014	2015	2016
Derivatives designated as hedging instruments:					
Foreign exchange options and forward contracts	\$ 36	"Operating expenses"	\$ (62)	\$ 178	\$ 167
Derivatives not designated as hedging instruments:					
Foreign exchange options and forward contracts		"Financial expenses"	125	(175)	(16)
SWAP		"Financial expenses"	-	225	608
Total	\$ 36		\$ 63	\$ 228	\$ 759

NOTE 9: SHORT TERM AND LONG TERM DEBT

- On May 17, 2012, the Company entered into loan agreements, with two Israeli Banks, pursuant to which the Company borrowed a total of \$10,000.

In December 2014, the Company executed a cross-currency and interest swap transaction with one of the banks in order to mitigate the potential impact of the fluctuations in the ILS/USD exchange rate in regards to the future interest and principal payments of the Company's convertible bonds (described below), which are denominated in ILS. In April 1, 2015, the Company amended the agreement in regards to the financial covenants to secure the fulfillment of all the obligations, liabilities and indebtedness, effective December 31, 2014. As of December 31, 2016, the Company fully repaid one of the loans, and the outstanding balance of \$400 will be repaid by April 2017. The agreement contains various provisions including compliance with certain financial covenants, restrictive covenants, including negative pledges on future acquisition, and other commitments, typically contained in facility agreements of this type.

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 (Cont.)

2. On November 30, 2015, concurrently with the closing of the Undertone acquisition, Interactive Holding Corp. entered into a new secured credit agreement for \$50,000, due in quarterly installments from March 2016 to November 2019. The installments started at \$625 per quarter, increase to \$1,250 per quarter in March 2018 and require a final payment upon maturity of \$35,000. The outstanding principal bears interest at LIBOR plus 5.5% per annum and is secured by substantially all the assets of the companies in the Undertone group and by guarantees of such companies. The credit is required to be prepaid by Undertone in certain circumstances, such as from proceeds of asset sales or casualty insurance policies, debt or equity offerings, or from excess cash flow in the event that Undertone's total leverage ratio exceeds specified targets, and a pro rata portion of indemnification payments (or offset of the holdback amount) under the Merger Agreement. The debt issuance cost amounted to \$1,399, which was deducted from the carrying amount of that debt in the consolidated balance sheets and amortized during the term of the loan as interest expense according to the effective interest method. According to the credit agreement, Undertone has the option for prepayment, which shall be applied to principal installments as specified by Undertone. In 2016, Undertone repaid additional \$5,000, which was applied to the final principal upon maturity.

As of December 31, 2016, the principal outstanding balance was \$42,500.

Under said credit facility, Undertone is required to maintain financial covenants as of the end of each fiscal quarter as set forth in the credit facility. As of December 31, 2016, the Company satisfies all of the financial covenants.

3. On November 22, 2015, the Company borrowed \$19,900 under a credit facility from an Israeli Bank. The credit facility was secured by a lien on the accounts receivable of ClientConnect Ltd., an Israeli subsidiary of Perion, from its current and future business clients and was guaranteed by Perion. As of December 31, 2015, the unpaid balance of the credit facility was \$13,000, bearing annual interest of LIBOR + 1.2%. In November 2016, the Company repaid the credit facility.
4. On November 28, 2016, the Company borrowed \$7,000 under a credit facility from the same Israeli bank. The credit facility is guaranteed by a lien on the accounts receivable of ClientConnect Ltd., from its current and future business clients and is guaranteed by Perion. As of December 31, 2016, the utilized balance of the credit facility was \$7,000 bearing annual interest of LIBOR + 3.3%. On January 26, 2017, the Company repaid the credit facility.

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 (Cont.)

As of December 31, 2016, the aggregate principal annual maturities according to the all of the above loan agreements were as follows:

	<u>Repayment amount</u>
2017	\$ 11,150
2018	5,000
2019	<u>33,750</u>
Total principal payments	49,900
Less: unamortized original issue discount	<u>(1,316)</u>
Present value of principal payments	48,584
Less: current portion	<u>10,656</u>
Long-term debt	<u>\$ 37,928</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 10: CONVERTIBLE DEBT

In September 2014, the Company completed a public offering in Israel of its Series L Convertible Bonds (the "Bonds"), with an aggregate par value of approximately ILS 143,500, out of which, as of December 31, 2016, approximately ILS 114,789 was outstanding, (approximately \$29,854 as of December 31, 2016). The Bonds were issued at a purchase price equal to 96.5% of their par value and bear annual interest at a rate of 5%, payable semi-annually, subject to a possible increase up to 6% in the event and to the extent the Company's debt rating is downgraded. The Bonds' principal, denominated in ILS, is repayable in five equal annual instalments commenced on March 31, 2016.

The Bonds are convertible, at the election of each holder, into the Company's ordinary shares at a conversion price of ILS 33.605 per share (\$8.74 on December 31, 2016) from the date of issuance and until March 15, 2020. The ordinary shares issued upon conversion of the Bonds will be listed on the NASDAQ Stock Market ("Nasdaq") and the Tel-Aviv Stock Exchange ("TASE"), to extent that the Company's ordinary shares are listed thereon at the time of conversion. The conversion price is subject to adjustment in the event that the Company effects a share split or reverse share split, rights offering or a distribution of bonus shares or a cash dividend.

The Company may redeem the Bonds upon delisting of the Bonds from the TASE, subject to certain conditions. In addition, the Company may redeem the Bonds or any part thereof at its discretion after December 1, 2014, subject to certain conditions.

The Company elected to apply the fair value option in accordance with ASC 825, "Financial Instruments", to the Bonds and therefore all unrealized gains and losses are recognized in earnings. As of December 31, 2016, the fair value of the Bonds, based on their quoted price at the TASE and including accrued interest of \$376, was \$29,526.

The changes of the long-term convertible debt in 2015 and 2016 were as follows:

Balance as of January 1, 2015	\$	35,752
Change in accrued interest		1,823
Change in fair value		175
Payment of interest		(1,824)
Balance as of December 31, 2015*	\$	35,926
Change in accrued interest		1,586
Change in fair value		1,350
Payment of interest		(1,716)
Payment of principal		(7,620)
Balance as of December 31, 2016*	\$	29,526

* include accrued interest of \$463 and \$376 as of December 31, 2015 and 2016, respectively

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 10: CONVERTIBLE DEBT (Cont.)

In order to mitigate the potential adverse impact of the fluctuations in the ILS-USD exchange rate, the Company entered into a cross currency interest rate swap agreement (the “SWAP”) in order to hedge the future interest and principal payments of the Bonds, which are denominated in ILS.

As of December 31, 2016, the Company satisfies all of the financial covenants associated with both the Bonds and the SWAP.

As of December 31, 2016, the aggregate principal annual payments of the Bonds were as follows:

	Repayment amount
2017	\$ 7,463
2018	7,464
2019	7,463
2020	7,464
	\$ 29,854

NOTE 11: COMMITMENTS AND CONTINGENT LIABILITIES

a. Office lease commitments

In January 2014, the Company entered into a lease agreement for new corporate offices in Holon, Israel. The lease expires in January 2025, with an option by the Company to extend for two additional terms of 24 months each. Additionally, the Company may exercise an early termination of the lease in November 2019.

Certain other facilities of the Company are rented under operating lease agreements, which expire on various dates, the latest of which is in 2022. The Company recognizes rent expense under such arrangements on a straight-line basis.

Furthermore, the Company leases motor vehicles for employees under operating lease agreements.

Aggregate minimum lease commitments under the aforesaid non-cancelable operating leases as of December 31, 2016, were as follows:

	Minimum lease payments	Minimum sublease rentals	Net future minimum lease commitment
2017	\$ 6,275	\$ 693	\$ 5,582
2018	6,318	694	5,624
2019	4,297	697	3,600
2020	3,613	627	2,986
2021	3,342	695	2,647
Thereafter	6,262	970	5,292
	\$ 30,107	\$ 4,376	\$ 25,731

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 11: COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

Facilities leasing expenses from continued operations in the years 2014, 2015 and 2016 were \$1,166, \$1,710 and \$5,419, respectively. Car leases expenses from continued operations in the years 2014, 2015 and 2016 were \$1,163, \$1,046 and \$790, respectively.

b. Contingent purchase obligation

On November 30, 2012, the Company completed the acquisition of 100% of Sweet IM's shares. Pursuant to the terms of the Share Purchase Agreement ("SPA") between the Company and SweetIM, the Company was obligated to pay SweetIM's shareholders, among other payments, a payment of up to \$ 7,500 in cash in May 2014 if certain milestones were met (the "Contingent Payment"). The milestones were based on the Company's GAAP revenues in 2013, and the absence of certain changes in the industry in which the Company operates. On May 28, 2014, the Company paid \$2,500 in respect of the Contingent Payment. Following such payment, on June 22, 2014, SweetIM's Shareholders' representative notified the Company claiming that the Company owes SweetIM's shareholders the entire Contingent Payment. The Company believes that the claim is without merit and plans to defend against it vigorously. Until this dispute is resolved, the Company will maintain the \$5,000 liability in its financial statements that was recorded at the time it entered into the SPA. In April 2015, pursuant to the SPA, an arbitration process with respect to this claim was commenced in Israel.

c. Legal Matters

1. In November 2013, MyMail, Ltd. ("MyMail"), a non-practicing entity, filed a lawsuit in the Eastern District of Texas alleging that ClientConnect's toolbar technology infringes one of its U.S. patents issued in September 2012, and demanding an injunction and monetary payments. In November 2014, the Company filed a Petition for Inter Partes Review ("IPR") in the United States Patent & Trademark Office, challenging the validity of the asserted claims of the patent in question. On December 31, 2014, MyMail filed an unopposed motion to stay the district court case pending resolution of the Petition for IPR. On January 9, 2015, the court granted a stay pending resolution of the Petition for IPR. On January 5, 2016, the parties have entered into a settlement agreement regarding, inter alia, the patent claim between the parties. The case was dismissed on January 8, 2016 and as a result the Company accrued for \$550 as of December 31, 2015 which was paid in 2016. Conduit signed an agreement with Perion, pursuant to which, Conduit will reimburse Perion for 50% of any amounts incurred by Perion with respect to the claim above and the Company received such amount during 2016.
2. On December 22, 2015, Adtile filed a lawsuit against Perion and Intercept Interactive Inc. ("Intercept"), a subsidiary of Interactive Holding Corp., in the United States District Court for the District of Delaware. The lawsuit alleges various causes of action against Perion and Intercept, related to Intercept's alleged unauthorized use and misappropriation of Adtile's proprietary information and trade secrets. On February 3, 2016, Adtile Technologies Inc. filed a motion for preliminary injunction to, inter alia, prevent Undertone from creating or selling motion-activated advertisements. On June 23, 2016, the court denied Adtile's motion for a preliminary injunction. On June 24, 2016, the court (i) granted Perion's motion to dismiss and (ii) granted Undertone's motion to stay the action and compel arbitration. The Company is unable to predict the outcome or range of possible loss at this stage, believes it has strong defenses against this lawsuit and intends to defend against it vigorously.

From time to time, the Company is party to other various legal proceedings, claims and litigation that arise in the ordinary course of business. It is the opinion of management that the ultimate outcome of these matters will not have a material adverse effect on the Company's financial position, results of operations or cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 12: SHAREHOLDERS' EQUITY

a. Ordinary shares

On November 18, 2013, the shareholders resolved to increase the authorized share capital of the Company to 120,000,000 ordinary shares with a par value of ILS 0.01 each. The ordinary shares of the Company entitle their holders to voting rights, the right to receive cash dividend and the right to a share in excess assets upon liquidation of the Company.

b. Private placement

On December 3, 2015 (the "Effective date"), the Company completed a private placement of 4,436,898 ordinary shares for gross proceeds of \$10,125 pursuant to a Securities Purchase Agreement (the "SPA") with two investors. The purchase price per share was \$2.282 per share, which was the average closing price of an ordinary share on the Nasdaq Global Select Market for the 30 trading days ending on December 1, 2015. According to the terms in the SPA, on September 1, 2016, the per share purchase price was adjusted downward to a price per share of \$1.939, and the Company issued to the two investors 782,981 additional ordinary shares for no additional consideration.

On November 30, 2015, the Company entered into Registration Rights Agreement (the "Agreement") with the two investors, pursuant to which the Company shall use its commercially reasonable efforts in order to file a registration statement on Form F-3 for the resale of the aforesaid Ordinary shares issued within timeframe as detailed in the Agreement. The registration statement was declared effective on March 31, 2016. The Company also agreed to other customary obligations regarding registration, including indemnification and maintenance of the applicable registration statement.

c. Stock Options, Restricted Stock Units and Warrants

In 2003, the Company's Board of Directors approved the 2003 Equity Incentive Plan (the "Plan") for an initial term of ten years from adoption and on December 9, 2012, extended the term of the Plan for an additional ten years. On August 7, 2013, the Company's Board of Directors approved amendments to the Plan which include the ability to grant RSUs and restricted stock.

The contractual term of the stock options is generally no more than five years and the vesting period of the options and RSUs granted under the Plan is between one and three years from the date of grant. The rights of the ordinary shares issued upon the exercise of stock options or RSUs are identical to those of the other ordinary shares of the Company.

As of December 31, 2016, there were 7,719,995 ordinary shares reserved for future stock-based awards under the Plan.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 12: SHAREHOLDERS' EQUITY (Cont.)

The following table summarizes the activities for the Company's service-based stock options for the year ended December 31, 2016:

		Weighted average		
	Number of options	Exercise price	Remaining contractual term (in years)	Aggregate intrinsic value
Outstanding at January 1, 2016	5,467,337	\$ 5.30	3.17	\$ 1,709
Granted	2,248,000	\$ 1.94		
Exercised	(200)	\$ 2.00		
Cancelled	(2,360,917)	\$ 4.97		
Outstanding at December 31, 2016	5,354,220	\$ 4.04	2.82	\$ 549
Exercisable at December 31, 2016	1,552,014	\$ 7.88	1.43	\$ 6
Vested and expected to vest at December 31, 2016	4,299,107	\$ 4.57	2.57	\$ 316

The weighted-average grant-date fair value of options granted during the years ended December 31, 2014, 2015 and 2016 was \$4.49, \$1.14 and \$0.64, respectively.

The aggregate intrinsic value of the outstanding stock options at December 31, 2016, represents the intrinsic value of 1,262,969 outstanding options that were in-the-money as of such date. The remaining 4,091,251 outstanding options were out-of-the-money as of December 31, 2016, and their intrinsic value was considered as zero. Total intrinsic value of options exercised during the years ended December 31, 2015 and 2016 was \$9.0 and less than \$1.0, respectively.

The number of options expected to vest reflects an estimated forfeiture rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 12: SHAREHOLDERS' EQUITY (Cont.)

The following table summarizes the activities for the Company's performance-based stock options for the year ended December 31, 2016:

	Number of Performance based options	Weighted average Exercise price	Remaining contractual term (in years)	Aggregate intrinsic value
Outstanding at January 1, 2016	3,550,000	\$ 2.38	4.93	\$ 4,793
Cancelled	(2,033,334)	\$ 2.28		
Outstanding at December 31, 2016	1,516,666	\$ 2.53	3.77	-
Exercisable at December 31, 2016	549,995	\$ 2.51	3.48	-
Vested and expected to vest at December 31, 2016	1,174,535	\$ 2.52	3.72	-

The performance based options' vesting is contingent upon achieving specific financial targets of the Company, set at the grant date.

The weighted-average grant-date fair value of performance-based options granted during the year ended December 31, 2015, was \$0.90.

There is no aggregate intrinsic value of the outstanding performance-based options at 2016, since they were all are out-of-the-money as of such date.

The number of options expected to vest reflects an estimated forfeiture rate.

The following table summarizes additional information regarding outstanding and exercisable stock options under the Company's Stock Option Plan as of December 31, 2016:

Range of exercise price	Number of options	Outstanding		Number of options	Exercisable	
		Weighted average remaining contractual life (years)	Weighted average exercise price		Weighted average remaining contractual life (years)	Weighted average exercise price
\$0.34-\$2.00	1,504,493	4.28	\$ 1.09	86,249	2.01	\$ 1.88
\$2.11-\$2.52	2,200,166	3.47	\$ 2.28	539,994	3.45	\$ 2.26
\$3.27-\$3.77	1,917,666	2.70	\$ 3.57	312,496	2.40	\$ 3.61
\$4.04-\$6.93	312,521	1.21	\$ 5.20	295,851	1.11	\$ 5.22
\$7.80-\$9.14	141,875	1.03	\$ 8.71	141,875	1.03	\$ 8.71
\$10.06-\$11.94	668,540	1.46	\$ 11.21	606,587	1.38	\$ 11.24
\$12.56-\$13.54	125,625	0.46	\$ 12.59	118,957	0.37	\$ 12.58
	6,870,886	3.03	\$ 3.70	2,102,009	1.97	\$ 6.47

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 12: SHAREHOLDERS' EQUITY (Cont.)

The following table summarizes the activities for the Company's RSUs for the year ended December 31, 2016:

	Number of RSUs	Weighted average grant date fair value
Unvested at January 1, 2016	692,320	\$ 12.64
Vested	(337,420)	\$ 12.64
Cancelled	(27,900)	\$ 12.64
Unvested at December 31, 2016	<u>327,000</u>	<u>\$ 12.64</u>
Expected to vest after December 31, 2016	<u>327,000</u>	<u>\$ 12.64</u>

RSUs expected to vest after December 31, 2016 were all vested on January 3, 2017.

The Company recognized share-based compensation expenses related to its stock-based awards in the consolidated statements of operations as follows:

	Year ended December 31,		
	2014	2015	2016
Cost of revenues	\$ 249	\$ 247	\$ 219
Research and development	2,058	804	708
Selling and marketing	1,940	1,397	1,907
General and administrative	9,302	4,290	4,010
Restructuring costs	220	-	-
Total	<u>\$ 13,769</u>	<u>\$ 6,738</u>	<u>\$ 6,844</u>
Share-based compensation in discontinued operations	<u>\$ (1,376)</u>	<u>\$ 878</u>	<u>\$ 42</u>

As of December 31, 2016, there was \$1,179 of unrecognized compensation cost related to outstanding stock options and RSUs, \$182 related to outstanding warrants and \$332 related to outstanding performance-based options. These amounts are expected to be recognized over a weighted-average period of 1.33 years related to outstanding stock options and RSUs, 1.99 years related to outstanding warrants and 1.25 years related to outstanding performance-based options. To the extent the actual forfeiture rate is different from what has been estimated, stock-based compensation related to these awards will differ from the initial expectations.

- a. In connection with the termination of one of the Company officers' employment in 2014, the Company reached a settlement under which it accelerates 479,980 stock options upon termination. In accordance with ASC 718, "Compensation - Stock Compensation", the Company reversed expenses previously recorded in connection with the unvested stock options and remeasured the award as of the termination date. Total incremental expense incurred in connection with the acceleration amounted to approximately \$4,800 and was included in general and administrative expenses in 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 12: SHAREHOLDERS' EQUITY (Cont.)

- b. In connection with the restructuring in November 2014 (see Note 16), the Company accelerated 33,333 RSUs of one of its officers. Total incremental expense incurred in connection with the acceleration amounted to \$220 and was included in restructuring charges.
- c. In connection with the Undertone acquisition, the Company granted warrants to purchase 200,000 ordinary shares, at a weighted average exercise price of \$3.03 per share, to a third-party vendor that provides development services to Undertone. The weighted-average grant-date fair value of the warrants granted was \$1.23. The total expense incurred in 2015 and 2016 was \$2.0 and \$62.0, respectively.

NOTE 13: FINANCIAL INCOME (EXPENSE), NET

	Year ended December 31,		
	2014	2015	2016
Financial income:			
Interest income	\$ 93	\$ 551	\$ 204
Foreign currency translation gains, net	-	572	-
Change in fair value of convertible debt	2,566	-	-
Change in fair value of SWAP	-	225	608
	<u>\$ 2,659</u>	<u>\$ 1,348</u>	<u>\$ 812</u>
Financial expense:			
Foreign currency translation losses, net	\$ (2,669)	\$ -	\$ (779)
Interest and change in fair value of payment obligation related to acquisitions	(1,067)	(489)	(1,303)
Issuance costs of convertible debt	(741)	-	-
Interest expense on debts	(733)	(2,313)	(5,306)
Change in fair value of convertible debt	-	(175)	(1,350)
Bank charges and other	(337)	(310)	(362)
	<u>\$ (5,547)</u>	<u>\$ (3,287)</u>	<u>\$ (9,100)</u>
Financial expense, net	<u><u>\$ (2,888)</u></u>	<u><u>\$ (1,939)</u></u>	<u><u>\$ (8,288)</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 14: INCOME TAXES

a. Income (Loss) before taxes on income

Income (Loss) before taxes on income is comprised as follows:

	Year ended December 31,		
	2014	2015	2016
Domestic	\$ 62,991	\$ (16,712)	\$ (3,393)
Foreign	(2,865)	(24,249)	6,453
Total	<u>\$ 60,126</u>	<u>\$ (40,961)</u>	<u>\$ 3,060</u>

b. Taxes on income

Taxes on income are comprised as follows:

	Year ended December 31,		
	2014	2015	2016
Current taxes	\$ 24,667	\$ 9,670	\$ 3,480
Deferred tax benefit	(13,851)	(8,973)	(3,268)
Total	<u>\$ 10,816</u>	<u>\$ 697</u>	<u>\$ 212</u>

Taxes on income by jurisdiction were as follows:

	Year ended December 31,		
	2014	2015	2016
Domestic	\$ 12,951	\$ 8,830	\$ 3,396
Foreign	(2,135)	(8,133)	(3,184)
Total	<u>\$ 10,816</u>	<u>\$ 697</u>	<u>\$ 212</u>
<u>Domestic:</u>			
Current taxes	\$ 24,507	\$ 8,943	\$ 2,459
Deferred tax (benefit) expense	(11,556)	(113)	937
Total - Domestic	<u>\$ 12,951</u>	<u>\$ 8,830</u>	<u>\$ 3,396</u>
<u>Foreign:</u>			
Current taxes	\$ 160	\$ 727	\$ 1,021
Deferred tax benefit	(2,295)	(8,860)	(4,205)
Total - Foreign	<u>\$ (2,135)</u>	<u>\$ (8,133)</u>	<u>\$ (3,184)</u>
Total income tax expense	<u>\$ 10,816</u>	<u>\$ 697</u>	<u>\$ 212</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 14: INCOME TAXES (Cont.)

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,	
	2015	2016
Deferred tax assets:		
Net operating loss carry forwards	\$ 10,280	\$ 8,267
Research and development	4,008	3,190
Other temporary differences mainly relating to reserve and allowances	4,058	2,703
Deferred tax assets, before valuation allowance	18,346	14,160
Valuation allowance	4,212	4,739
Total deferred tax assets, net	\$ 14,134	\$ 9,421
Deferred tax liabilities:		
Intangible assets	\$ (17,971)	\$ (10,998)
Property and equipment, net	(3,275)	(2,393)
Total deferred tax liabilities	\$ (21,246)	\$ (13,391)
Total deferred tax liability, net	\$ (7,112)	\$ (3,970)
Domestic:		
Long term deferred tax asset, net	\$ 5,006	\$ 4,069
Long term deferred tax liability	(261)	-
	\$ 4,745	\$ 4,069
Foreign:		
Long term deferred tax asset, net	\$ 7,338	\$ 48
Long term deferred tax liability	(19,195)	(8,087)
	\$ (11,857)	\$ (8,039)
Total deferred tax liability, net	\$ (7,112)	\$ (3,970)

The \$527 change in the total valuation allowance for the year ended December 31, 2016, relates to the increase in deferred taxes on operating loss carry-forwards and temporary differences for which a full valuation allowance was recorded. This amount is net of a \$448 decrease due to a change in the tax rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 14: INCOME TAXES (Cont.)

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,		
	2014	2015	2016
Income (Loss) before taxes on income	\$ 60,126	\$ (40,961)	\$ 3,060
Statutory tax rate in Israel	26.5%	26.5%	25.0%
Theoretical tax expense (income)	\$ 15,933	\$ (10,855)	\$ 765
Increase (decrease) in tax expenses resulting from:			
"Preferred Enterprise" benefits *	(13,325)	(5,654)	(1,356)
Non-deductible expenses including impairment charges	8,015	20,738	1,777
Deferred taxes on losses and other temporary charges for which a valuation allowance was provided, net	1,962	(4,617)	527
Tax adjustment in respect of different tax rate of foreign subsidiaries	(793)	1,185	(2,032)
Change in future tax rate	-	-	448
Other	(976)	(100)	83
Taxes on income	\$ 10,816	\$ 697	\$ 212
* Benefit per ordinary share from "Preferred Enterprise" status:			
Basic	\$ 0.17	\$ 0.12	\$ 0.02
Diluted	\$ 0.16	\$ 0.12	\$ 0.02

e. Income tax rates

Taxable income of Israeli companies is generally subject to corporate tax at the rate of 25% for the 2013 tax year, 26.5% for the 2014 and 2015 tax years, and 25% for the 2016 tax year. On December 30, 2016, as part of the Economic Efficiency Law (Legislative Amendments for Accomplishment of Budgetary Targets for Budget Years 2017-2018), 5777-2016, the corporate tax rate was reduced to 24% for the 2017 tax year and to 23% in 2018 tax year. However, the effective tax rate payable by a company that derives income from a Preferred Enterprise (as discussed below) may be considerably lower.

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

Taxes were not provided for undistributed earnings of the Company's foreign subsidiaries. Currently the Company does not intend to distribute any amounts of its undistributed earnings as dividends. The Company intends to reinvest these earnings indefinitely in the foreign subsidiaries and pay down its debt. Accordingly, no deferred income taxes have been provided in respect of these subsidiaries. If these earnings were distributed to Israel in the form of dividends or otherwise, the Company would be subject to additional Israeli income taxes (subject to an adjustment for foreign tax credits) and foreign withholding taxes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 14: INCOME TAXES (Cont.)

The amount of undistributed earnings of foreign subsidiaries is immaterial.

f. Law for the Encouragement of Capital Investments, 1959

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

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

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

Benefits granted to a Preferred Enterprise include reduced tax rates. In peripheral regions (Development Area A) the reduced tax rate was 7% in 2013, 9% in 2014, 9% in 2015 and 9% in 2016. As part of Economic Efficiency Law (Legislative Amendments for Accomplishment of Budgetary Targets for Budget Years 2017-2018), 5777-2016, the tax rate for Area A will be 7.5% in 2017 onwards. In other regions the tax rate is 16%. Preferred Enterprises in peripheral regions will be eligible for Investment Center grants, as well as the applicable reduced tax rates.

A distribution from a Preferred Enterprise out of the "Preferred Income" would be subject to 15% withholding tax for Israeli-resident individuals and non-Israeli residents (subject to applicable treaty rates), or 20% for dividends which are distributed on or after January 1, 2014 and from "Preferred Income" that was produced or accrued after such date. A distribution from a Preferred Enterprise out of the "Preferred Income" would be exempt from withholding tax for an Israeli-resident company.

In January 2014 and as part of ClientConnect's spin-off that occurred on December 31, 2013, Conduit received a ruling from the Israel Tax Authority (the "Spin-off Ruling"), pursuant to which Conduit released an additional amount of \$270,840 of its "trapped earnings".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 14: INCOME TAXES (Cont.)

g. Uncertain tax positions

A reconciliation of the beginning and ending balances of the total amounts of unrecognized tax benefits is as follows:

	December 31,	
	2015	2016
Balance at the beginning of the year	\$ 724	\$ 2,367
Decrease related to prior year tax positions, net	(22)	(195)
Increase related to current year tax positions	1,665	1,257
Balance at the end of the year	\$ 2,367	\$ 3,429

The Company does not expect uncertain tax positions to change significantly over the next 12 months, except in the case of settlements with tax authorities, the likelihood and timing of which are difficult to estimate.

The Company believes that it has adequately provided for any reasonably foreseeable outcome related to tax audits and settlements, although the final tax outcome of its tax audits could be different from that which is reflected in the Company's income tax provisions and accruals. Such differences could have a material effect on the Company's income tax provision and net income in the period in which such determination is made.

The Company's tax assessments in Israel and the U.S. for tax years prior to 2012 are considered final. The Company has net operating losses in the U.S. from prior tax periods beginning in 2005 which may be subject to examination upon utilization in future tax periods

h. Tax loss carry-forwards

As of December 31, 2016, the Company's U.S. subsidiaries have net operating loss carry-forwards of \$10,000.

Net operating losses in the U.S. may be carried forward through periods which will expire in the years starting from 2024 up to 2034. Utilization of U.S. net operating losses may be subject to substantial annual limitation due to the "change in ownership" provisions of the Internal Revenue Code of 1986 and similar state provisions. The annual limitation may result in the expiration of net operating losses before utilization.

As of December 31, 2016, the Company's European subsidiaries have net operating loss carry-forwards of \$7,340.

As of December 31, 2016, Perion have net operating loss carry-forwards, in Israel, of \$12,780.

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,		
	2014	2015	2016
Numerator:			
Net income (Loss) attributable to ordinary shares - basic	\$ 49,310	\$ (41,658)	\$ 2,848
Gains related to convertible debt, net	(2,100)	-	-
Net income (Loss) from continuing operations - diluted	\$ 47,210	\$ (41,658)	\$ 2,848
Net loss from discontinued operations – basic and diluted	\$ (6,484)	\$ (26,999)	\$ (2,647)
Denominator:			
Number of ordinary shares outstanding during the year	68,213,209	71,300,432	76,560,454
Weighted average effect of dilutive securities:			
Assumed conversion of convertible debt	1,090,906	-	-
Shares to be issued in connection with acquisition	52,664	-	-
Employee stock options and restricted stock units	970,632	-	113,349
Diluted number of ordinary shares outstanding - Continuing and discontinued operations	<u>70,327,411</u>	<u>71,300,432</u>	<u>76,673,803</u>
Basic net earnings (loss) per ordinary share			
Continuing operations	\$ 0.72	\$ (0.58)	\$ 0.04
Discontinued operations	\$ (0.09)	\$ (0.38)	\$ (0.04)
Net income (loss)	<u>\$ 0.63</u>	<u>\$ (0.96)</u>	<u>\$ 0.00*)</u>
Diluted net earnings (loss) per ordinary share			
Continuing operations	\$ 0.67	\$ (0.58)	\$ 0.04
Discontinued operations	\$ (0.09)	\$ (0.38)	\$ (0.04)
Net income (loss)	<u>\$ 0.58</u>	<u>\$ (0.96)</u>	<u>\$ 0.00*)</u>
Ordinary shares equivalents excluded because their effect would have been anti-dilutive	<u>3,766,080</u>	<u>14,179,439</u>	<u>10,700,363</u>

*) Less than \$0.01

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 16: RESTRUCTURING COSTS

In November 2014, the Company initiated a restructuring plan of its search monetization business, mainly to reduce workforce, close certain facilities, as well as other cost saving measures. Pursuant to this restructuring plan, in 2014, the Company incurred cumulative charges of \$3,981 as follows:

Payroll and share-based compensation expenses	\$	1,993
Lease facilities and related expenses		1,248
Property and equipment impairment		632
Other		108
		<u>3,981</u>
Total restructuring costs	\$	<u>3,981</u>

In October 2015, the Company initiated a restructuring plan of one of its consumer app development projects, mainly to reduce workforce, close certain facilities, as well as other cost saving measures. Pursuant to this restructuring plan, in 2015, the Company incurred cumulative charges of \$1,052 as follows:

Severance and payroll related	\$	1,022
Property and equipment impairment		159
Write-off of prepaid royalties		219
Other		(348)
		<u>1,052</u>
Total restructuring costs	\$	<u>1,052</u>

As of December 31, 2015, the restructuring accrual amounted to \$1,756, and is included under accrued expenses and other liabilities on the balance sheet. In 2016, there was no accrual.

The additions and adjustments to the accrued restructuring liability for the year ended December 31, 2016 are as follows:

	December 31, 2015	Additional costs	Cash payments	Adjustments	December 31, 2016
2015 Restructuring Plan:					
Severance and Payroll related	\$ 752	\$ 272	\$ (1,065)	\$ 41	\$ -
Rent and related expenses	-	456	-	(456)	-
Restructuring accrual assumed upon acquisition	<u>1,004</u>	<u>-</u>	<u>(566)</u>	<u>(438)</u>	<u>-</u>
	<u>\$ 1,756</u>	<u>\$ 728</u>	<u>\$ (1,631)</u>	<u>\$ (853)</u>	<u>\$ -</u>

NOTE 17: RELATED PARTY TRANSACTIONS

ClientConnect and Conduit entered into agreements pursuant to which the parties agreed to provide and receive certain administrative and business support services and systems, including data services, information technology, information security and management information systems, for consideration at market terms, from each other. In September 2014, following the Company's moving of its offices to Holon, the above mentioned services were no longer provided. During 2014, ClientConnect received \$1,645, of services from Conduit, and provided \$142, of services to Conduit.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 18: MAJOR CUSTOMERS

A substantial portion of the Company's revenue is derived from search fees and online advertising, the market for which is highly competitive and rapidly changing. Significant changes in this industry or in customer buying behavior would adversely affect the Company's operating results.

The following table sets forth the customers that represented 10% or more of the Company's total revenues in each of the years presented below:

	Year ended December 31,		
	2014	2015	2016
Customer A	74%	81%	49%

NOTE 19: GEOGRAPHIC INFORMATION

The Company operates as one operating segment. Operating segments are defined as components of an enterprise for which separate financial information is evaluated regularly by the Chief Operating Decision Maker, who is the Chief Executive Officer, in deciding how to allocate resources and assessing performance. Over the past few years, the Company has completed several acquisitions. These acquisitions have allowed the Company to expand its offerings, presence and reach in various market segments. While the Company has offerings in multiple enterprise market segments, 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, 2014, 2015 and 2016, allocated to the geographic areas in which they were generated:

	Year ended December 31,		
	2014	2015	2016
North America (mainly U.S.)	\$ 292,409	\$ 173,424	\$ 253,960
Europe	69,281	40,612	47,012
Other	27,041	6,914	11,822
	<u>\$ 388,731</u>	<u>\$ 220,950</u>	<u>\$ 312,794</u>

The total revenues are attributed to geographic areas based on the location of the end-users.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 19: GEOGRAPHIC INFORMATION (Cont.)

The following table presents the locations of the Company's property and equipment as of December 31, 2015 and 2016:

	December 31,	
	2015	2016
Israel	\$ 9,161	\$ 9,108
U.S.	3,071	4,402
Europe	482	695
	<u>\$ 12,714</u>	<u>\$ 14,205</u>

NOTE 20: SUBSEQUENT EVENTS

On January 23, 2017, Perion announced the appointment of Doron Gerstel as Perion's Chief Executive Officer effective April 2, 2017 and Yacov Kaufman as Interim Chief Executive Officer, until then.

ITEM 19. EXHIBITS:

<u>No.</u>	<u>Description</u>
1.1	Memorandum of Association of Perion, as amended and restated (translated from Hebrew). (1)
1.2	Articles of Association of Perion, as amended and restated. (2)
4.1	Share Purchase Agreement by and among Perion Network Ltd., SweetIM Ltd., SweetIM Technologies Ltd., the Shareholders of SweetIM Ltd. and Nadav Goshen as Shareholders' Agent, dated as of November 7, 2012, and Amendment No. 1, dated as of November 30, 2012. (3)
4.2	Registration Rights Agreement among the Company and the investors listed therein, dated as of November 7, 2012. (3)
4.3	Share Purchase Agreement by and among Perion Network Ltd., Conduit Ltd. and ClientConnect Ltd., dated as of September 16, 2013. (4)
4.4	Form of Standstill Agreement between Perion Network Ltd. and certain shareholders thereof, dated as of September 16, 2013. (4)
4.5	Form of Registration Rights Undertaking of the Company dated January 2, 2014. (4)
4.6	Perion 2003 Israeli Share Option Plan and U.S. Addendum. (3)
4.7	Perion Equity Incentive Plan. (4)
4.8	Compensation Policy for Directors and Officers, adopted November 18, 2013. (4)
4.12	Summary Terms and Conditions of Series L Convertible Bonds. (2)
4.13	Search Distribution Agreement by and between Microsoft Online, Inc. and Perion Network Ltd., dated July 29, 2014, as amended on September 15, 2014.* (2)
4.14	Merger Agreement by and between Perion Network Ltd., IncrediTone Inc., Or Merger, Inc., Interactive Holding Corp. and Fortis Advisors LLC as the Stockholders' Representative, dated November 30, 2015. (6)
4.15	Credit Agreement by and between Or Merger, Inc., Interactive Holding Corp., IncrediTone Inc., SunTrust Bank, Silicon Valley Bank and SunTrust Robinson Humphery, Inc., dated November 30, 2015. (6)
4.16	Securities Purchase Agreement by and between Perion Network Ltd. and the purchasers listed therein, dated November 30, 2015. (6)
4.17	Registration Rights Agreement by and between Perion Network Ltd. and the purchasers listed therein, dated December 3, 2015. (6)
4.18	Amendments No. 1, No. 2 and No. 3 to the Credit Agreement by and between Or Merger, Inc., Interactive Holding Corp., IncrediTone Inc., SunTrust Bank, Silicon Valley Bank and SunTrust Robinson Humphery, Inc., dated March 4, 2016, May 8, 2016 and October 7, 2016, respectively.
8	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 The following Interactive Data Files, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets at December 31, 2015 and 2016; (ii) Consolidated Statements of Income for the years ended December 31, 2014, 2015 and 2016; (iii) Consolidated Statements of Comprehensive Income for the years ended December 31, 2014, 2015 and 2016; (iv) Statements of Changes in Shareholders' Equity for the years ended December 31, 2014, 2015 and 2016; (v) Consolidated Statements of Cash Flows for the years ended December 31, 2014, 2015 and 2016; and (vi) Notes to the Consolidated Financial Statements.**

- (1) Previously filed with the SEC on April 10, 2014 as an exhibit to our annual report on Form 20-F, and incorporated herein by reference.
- (2) Previously filed with the SEC on April 16, 2015 as an exhibit to our annual report on Form 20-F, and incorporated herein by reference.
- (3) Previously filed with the SEC on April 29, 2013 as an exhibit to our annual report on Form 20-F, and incorporated herein by reference.
- (4) Previously filed with the SEC on October 15, 2013 as an exhibit to our Report on Form 6-K, and incorporated herein by reference.
- (5) Previously filed with the SEC on July 29, 2014 as an exhibit to our annual report on Form 20-F/A, and incorporated herein by reference.
- (6) Previously filed with the SEC on March 24, 2016 as an exhibit to our annual report on Form 20-F, and incorporated herein by reference.

* Confidential treatment was granted with respect to certain portions of this exhibit pursuant to 17.C.F.R. §240.24b-2. Omitted portions were filed separately with the SEC.

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

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.

/s/ Yacov Kaufman

Yacov Kaufman

Interim Chief Executive Officer

Date: March 7, 2017

FIRST AMENDMENT TO CREDIT AGREEMENT

THIS FIRST AMENDMENT TO CREDIT AGREEMENT dated as of March 4, 2016 (this "Amendment"), by and among INTERACTIVE HOLDING CORP., a Delaware corporation (the "Borrower"), INCREDITONE INC., a Delaware corporation ("Holdings"), each of the Guarantors party hereto, each of the financial institutions party hereto as "Lenders" (the "Lenders") and SUNTRUST BANK, in its capacity as Administrative Agent (in such capacity, the "Administrative Agent").

W I T N E S S E T H:

WHEREAS, the Borrower, Holdings, SunTrust Bank, Silicon Valley Bank, Comerica Bank and the Administrative Agent are parties to that certain Credit Agreement dated as of November 30, 2015 (the "Credit Agreement"); and

WHEREAS, in connection with the purchase on the date hereof by Cadence Bank of (i) \$10,000,000 in principal amount of Term Loans held by Comerica Bank, (ii) \$3,333,333.34 in principal amount of Term Loans held by SunTrust Bank and (iii) \$3,333,333.33 in principal amount of Term Loans held by Silicon Valley Bank, the Borrower has requested certain amendments to the Credit Agreement, including a request to provide Aggregate Revolving Commitments in an amount equal to \$10,000,000 from the Lenders; and

WHEREAS, the Lenders and the Administrative Agent are willing to so amend the Credit Agreement on and subject to the terms and conditions herein.

NOW, THEREFORE, for and in consideration of the above premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by the parties hereto, the parties hereto hereby agree as follows:

1. **Defined Terms.** Capitalized terms which are used herein without definition and which are defined in the Credit Agreement shall have the same meanings herein as in the Credit Agreement; provided, that, solely for purposes of this Amendment, Perion Network Ltd. shall be deemed to be included in the definition of the term "Loan Party".

2. **Amendments to Credit Agreement.**

(a) The Credit Agreement is hereby amended by deleting the defined terms "Aggregate Revolving Commitment Amount", "Consolidated EBITDA", "LC Commitment", "Permitted Third Party Bank" and "Swingline Commitment" in Section 1.1. thereof and substituting in lieu thereof the following defined terms, respectively:

"Aggregate Revolving Commitment Amount" shall mean the aggregate principal amount of the Aggregate Revolving Commitments from time to time. On March 4, 2016, the Aggregate Revolving Commitment Amount is \$10,000,000.

"Consolidated EBITDA" shall mean, for the Borrower and its Subsidiaries for any period, an amount equal to the sum of (i) Consolidated Net Income for such period plus (ii) to the extent deducted in determining Consolidated Net Income for such period and to the extent not excluded from Consolidated Net Income pursuant to the definition thereof, and without duplication, (A) Consolidated Interest Expense, (B) income tax expense determined on a consolidated basis in accordance with GAAP, (C) depreciation and amortization determined on a consolidated basis in accordance with GAAP, (D) non-cash charges related to the mark-to-market treatment of obligations under Hedging Transactions, (E) any extraordinary, unusual or non-recurring expenses or losses or restructuring charges or costs, all as determined in accordance with GAAP; provided, that, the amount under this clause (E) shall not exceed (x) \$1,250,000 in the aggregate for any period of four (4) consecutive Fiscal Quarter period through December 31, 2016 and (y) and \$1,000,000 in the aggregate during any Fiscal Year after December 31, 2016; (F) transaction costs and expenses paid in cash in connection with the Related Transactions in an aggregate amount not to exceed \$13,756,501; (G) non-cash charges related to the Great Plains accounting software and related services; provided, that, the amount under this clause (G) shall not exceed \$650,000 in the aggregate; and (H) all non-cash foreign currency exchange losses or charges and non-cash expenses deducted as a result of any grant of Capital Stock to employees, officers or directors for such period (but excluding any non-cash loss, charge or expense that is an accrual of or a reserve for a cash expenditure or payment to be made, or anticipated to be made, in a future period); provided that, for purposes of calculating compliance with the financial covenants set forth in Article VI, to the extent that during such period any Borrower Loan Party shall have consummated a Permitted Acquisition or other Acquisition approved in writing by the Required Lenders, or any sale, transfer or other disposition of any Person, business, property or assets, Consolidated EBITDA shall be calculated on a Pro Forma Basis with respect to such Person, business, property or assets so acquired or disposed of. Notwithstanding the foregoing, but subject to any adjustment set forth above with respect to the immediately preceding proviso, Consolidated EBITDA shall be \$10,118,601, \$667,379, \$6,920,800 and \$6,645,632 for the Fiscal Quarters ended December 31, 2014, March 31, 2015, June 30, 2015 and September 30, 2015, respectively.

"LC Commitment" shall mean that portion of the Aggregate Revolving Commitments that may be used by the Borrower for the issuance of Letters of Credit in an aggregate face amount not to exceed \$3,000,000.

"Permitted Third Party Bank" shall mean SunTrust Bank, Silicon Valley Bank, Cadence Bank (or with the consent of the Agent (such consent not to be unreasonably withheld or delayed), another Lender or financial institution) and with whom any Loan Party maintains a Controlled Account and with whom a Control Account Agreement has been executed.

"Swingline Commitment" shall mean the commitment of the Swingline Lender to make Swingline Loans in an aggregate principal amount at any time outstanding not to exceed \$3,000,000.

(b) The Credit Agreement is hereby further amended by adding the following new defined term "Israel Subsidiary." to Section 1.1. thereof in the appropriate alphabetical order:

"Israel Subsidiary." shall mean, as long as it is not a Subsidiary Loan Party, any Subsidiary of the Borrower organized under the laws of the State of Israel.

(c) The Credit Agreement is hereby further amended by deleting "75 days after the Closing Date" in the first line of Section 5.11 of the Credit Agreement and substituting "March 31, 2016 (except in the case of the establishment and maintenance of a Controlled Account with HSBC Bank USA, National Association, which shall be no later than May 17, 2016)" in lieu thereof.

(d) The Credit Agreement is hereby further amended by adding the following at the end of Section 5.11:

"Prior to May 17, 2016, the parties hereto agree that account number 1894408945 at Comerica Bank (the "Excluded Account") shall not be required to be subject to a Control Account Agreement pursuant to this Section 5.11 so long as the Borrower shall cause any and all cash at any time held in the Excluded Account to be swept and deposited on a daily basis into a Controlled Account with a Permitted Third Party Bank which is subject to a Control Account Agreement."

(e) The Credit Agreement is hereby further amended by deleting "commencing within ninety (90) days after the Closing Date" in the first line of Section 5.15 of the Credit Agreement and substituting "no later than May 17, 2016" in lieu thereof.

(f) The Credit Agreement is hereby further amended by deleting clause (d) in Section 7.4 thereof in its entirety and substituting in lieu thereof the following:

"(d) Investments made by the Borrower in or to any Subsidiary of the Borrower and by any Subsidiary of the Borrower to the Borrower or in or to another Subsidiary of the Borrower; provided that the aggregate amount of Investments by the Borrower Loan Parties in or to, and Guarantees by the Borrower Loan Parties of Indebtedness of, (i) any Subsidiary of the Borrower that is not a Subsidiary Loan Party (other than an Israel Subsidiary) shall not exceed \$1,000,000 in the aggregate for all such Subsidiaries in any Fiscal Year and (ii) any Israel Subsidiary shall not exceed (A) for the Fiscal Year ending December 31, 2016, an amount equal to \$3,000,000 in the aggregate for all such Israel Subsidiaries, (B) for the Fiscal Year ending December 31, 2017, an amount equal to 15% of Consolidated EBITDA for the Fiscal Year ending December 31, 2016 (with such limit to be an aggregate amount for all such Israel Subsidiaries), (C) for the Fiscal Year ending December 31, 2018, an amount equal to 12.5% of Consolidated EBITDA for the Fiscal Year ending December 31, 2017 (with such limit to be an aggregate amount for all such Israel Subsidiaries) and (D) for the Fiscal Year ending December 31, 2019, an amount equal to 12.5% of Consolidated EBITDA for the Fiscal Year ending December 31, 2018 (with such limit to be an aggregate amount for all such Israel Subsidiaries); provided, further, that (1) both at the time of and immediately after giving effect to any such Investment, no Default or Event of Default shall have occurred and be continuing or shall result from the making of such Investment, (2) after giving effect to any such Investment, the *pro forma* Total Leverage Ratio of Borrower and its Subsidiaries shall not exceed the Total Leverage Ratio required under Section 6.1 as of the most recently ended Fiscal Quarter minus 0.25 to 1.00 (and in the case prior to the Fiscal Quarter ended March 31, 2016, such Total Leverage Ratio shall not exceed 2.25:1.00), calculated as if any Borrowing or other Indebtedness used to finance such Investment (if any) had been funded as of the first day of the relevant period of measurement and (3) immediately after giving effect to such Investment the sum of (i)(x) the Aggregate Revolving Commitment Amount minus (y) the aggregate principal amount of all Revolving Credit Exposure plus (ii) cash on hand (that is either unencumbered or in Controlled Accounts) of the Loan Parties is at least \$7,500,000;"

(g) The Credit Agreement is hereby further amended by deleting all references to "Schedule II" contained in the Credit Agreement and substituting in lieu thereof "Schedule I".

(h) The Credit Agreement is hereby further amended by deleting Schedule I thereto in its entirety and substituting in lieu thereof Schedule I attached hereto.

(i) The parties hereto acknowledge that certain Indebtedness of the Loan Parties in the form of letters of credit are outstanding and described on Schedule 7.1 (other than the Letter of Credit dated June 28, 2012 for the benefit of 101 California Venture for the amount of \$75,000 (the "101 CA Venture LC")) (such letters of credit (other than the 101 CA Venture LC), collectively, the "Existing Letters of Credit"). The parties hereto further acknowledge that the Existing Letters of Credit are secured by cash collateral in a deposit account described on Schedule 7.2 (the "Existing LC Cash Collateral Account") and in Section 5.11(a)(iii), and that such cash collateral is "Excluded Property" under the Guaranty and Security Agreement. The Administrative Agent and the Lenders hereby acknowledge and agree that, notwithstanding the terms of the Credit Agreement or any other Loan Document: (i) the Existing Letters of Credit may be replaced from time to time with one or more replacement letters of credit issued by any Person or Persons in favor of the beneficiary of such Existing Letter of Credit that is being replaced (each a "Replacement Letter of Credit") so long as the aggregate stated amount of the Existing Letters of Credit and any Replacement Letters of Credit issued in replacement thereof shall not exceed the aggregate stated amount of the Existing Letters of Credit as of the date hereof, provided that any Replacement Letter of Credit may be outstanding at the same time as its corresponding Existing Letter of Credit for a reasonable period of time, not to exceed five (5) Business Days, (ii) the cash collateral held in the Existing LC Cash Collateral Account may be used (and such cash may be removed from the Existing LC Cash Collateral Account and deposited into one or more deposit accounts with other financial institutions for the purpose of serving as cash collateral with such deposit accounts subject to a Lien for the benefit of the financial institutions issuing the replacement letters of credit described in clause (i) immediately above) as credit support for such replacement letters of credit described in clause (i) immediately above so long as such cash collateral does not, in the aggregate, exceed \$1,182,314, provided that for a reasonable period of time, not to exceed five (5) Business Days, the Existing LC Cash Collateral Account and the accounts holding cash collateral used for the purpose of providing credit support for such Replacement Letters of Credit may both be outstanding and the amount of such cash collateral may exceed \$1,182,314 but shall not exceed the aggregate stated amount of the outstanding Existing Letters of Credit and any Replacement Letters of Credit described in clause (i) immediately above, (iii) for purposes of Section 5.11(a)(iii) and the definition of "Excluded Property" in the Guaranty and Security Agreement, the Existing LC Cash Collateral Account and the cash collateral held therein shall be deemed to include any new deposit accounts created for the Replacement Letters of Credit allowed by clause (i) immediately above and any cash collateral used for the purpose of providing credit support for such Replacement Letters of Credit as described in clause (ii) immediately above, and (iv) Funded Debt shall not include the replacement letters of credit described in clause (i) immediately above.

3. **Waiver.** Subject to the satisfaction of the conditions set forth in Section 4 below, in reliance on the representations and warranties set forth in Sections 5 and 6 below, and subject to the limitations set forth in Section 7 below, the Lenders hereby waive any Default or Event of Default existing on or prior to the date hereof arising solely under (i) Section 7.4(d) of the Credit Agreement to the extent such Default or Event of Default is attributable to Investments made prior to the Closing Date and (ii) Sections 5.11 and 5.15 of the Credit Agreement. The foregoing waiver shall not apply to any Default or Event of Default that may arise as a result of any event or circumstance that occurs or continues after the date on which the conditions precedent set forth in Section 4 hereof shall have been met (or duly waived). The Borrower acknowledges and agrees that the waiver contained in this Section 3 shall not waive or amend (or be deemed to be or constitute an amendment to or waiver of) any other covenant, term or provision in the Credit Agreement or hinder, restrict or otherwise modify the rights and remedies of the Lenders and the Administrative Agent following the occurrence of any other present or future Default or Event of Default under the Credit Agreement or any other Loan Document. The Borrower and Holdings represent and warrant to the Administrative Agent and the Lenders that, for the period from and including the Closing Date through the date of this Amendment, the Borrower has (x) made Investments pursuant to Section 7.4(d)(ii)(A) in an aggregate amount equal to \$27,886 (which Investments are and remain outstanding in such amount as of the date hereof) and (y) made Investments pursuant to Section 7.4(d)(i) in an aggregate amount equal to \$453,460 (which Investments are and remain outstanding in such amount as of the date hereof).

4. **Conditions Precedent to Effectiveness.** The effectiveness of this Amendment is subject to the truth and accuracy of the warranties and representations set forth in Sections 5 and 6 below and receipt by the Administrative Agent of each of the following, each of which shall be in form and substance satisfactory to Administrative Agent:

(a) This Amendment, duly executed and delivered by the Borrower, Holdings, the Subsidiary Loan Parties, the Lenders and the Administrative Agent;

(b) A certificate of the Borrower dated as of the date hereof signed by a Responsible Officer of the Borrower certifying that, immediately before and after giving effect to this Amendment (i) the representations and warranties contained in Article IV of the Credit Agreement and the other Loan Documents are true and correct on and as of the date hereof, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they shall have been true and correct as of such earlier date; (ii) since December 31, 2014, there has been no event, development or circumstance, either individually or in the aggregate, that has had or could reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect; and (iii) no Default or Event of Default (other than such Default or Event of Default expressly waived by Section 3 above) has occurred and is continuing as of the date hereof and no Default or Event of Default will exist after giving effect to the amendments contemplated by this Amendment;

(c) For the account of each Lender that has requested a promissory note in respect of such Lender's Revolving Commitment, a promissory note evidencing such Lender's Revolving Commitment, duly executed by a Responsible Officer of the Borrower;

(d) A Reaffirmation of Obligations Under Loan Documents (the "Reaffirmation") dated as of the date hereof duly executed by each Loan Party, in the form of Exhibit I attached hereto

(e) A legal opinion addressed to the Administrative Agent and each of the Lenders from Kramer Levin Naftalis & Frankel LLP, counsel to the Borrower and Holdings, which opinion shall be dated the date hereof and covering such matters relating to the Borrower, Holdings, this Amendment, and the transactions contemplated hereby as the Administrative Agent or the Lenders shall reasonably request;

(f) A certificate, dated as of the date hereof, signed by the Secretary of the Borrower, together with the resolutions of the Borrower in respect of the authorization and approval of the transactions contemplated by this Amendment;

(g) Certified copies of all consents, approvals, authorizations, registrations and filings and orders required to be made or obtained under applicable law, if any, or by any Contractual Obligation of each Loan Party, in connection with the execution, delivery, performance, validity and enforceability of this Amendment or any of the transactions contemplated hereby, and such consents, approvals, authorizations, registrations, filings and orders shall be in full force and effect and all applicable waiting periods shall have expired;

(h) The payment of all fees and other amounts due and payable on or prior to the effective date of this Amendment, including (x) reimbursement or payment of all out-of-pocket expenses (including reasonable fees, charges and disbursements of counsel to the Administrative Agent) required to be reimbursed or paid by the Borrower and Holdings hereunder and under that certain engagement letter dated February 18, 2016 among the Borrower, Holdings and the Lenders and (y) the fees owing under that certain fee letter dated February 18, 2016 among the Borrower, Holdings and the Lenders; and

- (i) Such other documents as the Administrative Agent may reasonably request.

5. Representations. Each of the Borrower and Holdings represents and warrants to the Administrative Agent and the Lenders that:

(a) Power and Authority. Each of the Borrower and the other Loan Parties have the power and authority to execute, deliver and perform the terms and provisions of this Amendment and the Credit Agreement, as amended by this Amendment, and have taken all necessary corporate action to duly authorize the execution, delivery and performance of this Amendment. Each of this Amendment and the Credit Agreement, as amended by this Amendment, constitutes the legal, valid and binding obligation of the Borrower and Holdings enforceable in accordance with its terms, except to the extent that the enforceability thereof may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws generally affecting creditors' rights and by equitable principles.

(b) No Violation. The execution, delivery and performance by the Borrower and the other Loan Parties of this Amendment, and compliance by them with the terms and provisions of the Credit Agreement, as amended by this Amendment: (i) will not contravene any provision of any law, statute, rule or regulation or any order, writ, injunction or decree of any court or federal, state or local Governmental Authority, (ii) will not conflict with or result in any breach of any of the terms, covenants, conditions or provisions of, or constitute a default under, or result in the creation or imposition of (or the obligation to create or impose) any lien upon any of the property or assets of any Loan Party pursuant to the terms of any indenture, mortgage, deed of trust, credit agreement or loan agreement, or any other agreement, contract or instrument, to which any Loan Party is a party or by which they or any of their property or assets is bound or to which they may be subject or (iii) will not violate any provision of the certificate or articles of incorporation or bylaws of the Borrower, Holdings or any other Loan Party.

(c) Governmental Approvals. No order, consent, approval, license, authorization or validation of, or filing, recording or registration with (except for those that have otherwise been obtained or made on or prior to the date of the effectiveness of this Amendment and which remain in full force and effect on such date), or exemption by, any Governmental Authority, is required to authorize, or is required in connection with, (i) the execution, delivery and performance of this Amendment by the Borrower or Holdings or (ii) the legality, validity, binding effect or enforceability of the Credit Agreement, as amended by this Amendment against the Borrower or Holdings.

(d) No Default. No Default or Event of Default (other than such Default or Event of Default expressly waived by Section 3 above) has occurred and is continuing as of the date hereof and no Default or Event of Default will exist immediately after giving effect to this Amendment.

(e) No Impairment. The execution, delivery, performance and effectiveness of this Amendment will not: (a) impair the validity, effectiveness or priority of the Liens granted pursuant to any Loan Document, and such Liens continue unimpaired with the same priority to secure repayment of all of the applicable Obligations, whether heretofore or hereafter incurred, and (b) require that any new filings be made or other action taken to perfect or to maintain the perfection of such Liens.

(f) Solvency. As of the date hereof, on a pro forma basis after giving effect to the Revolving Commitments contemplated hereby and to all Indebtedness incurred, and to be incurred under such Revolving Commitments, the Borrower and each other Loan Party is Solvent.

6. **Reaffirmation of Representations.** Each of the Borrower, Holdings and the Subsidiary Loan Parties hereby repeats and reaffirms all representations and warranties made to the Administrative Agent and the Lenders in the Credit Agreement and the other Loan Documents on and as of the date hereof (and after giving effect to this Amendment) with the same force and effect as if such representations and warranties were set forth in this Amendment in full (except to the extent that such representations and warranties relate expressly to an earlier date, in which case such representations and warranties were true and correct as of such earlier date).

7. **No Further Amendments; Ratification of Liability.** Except as expressly amended or waived hereby, the Credit Agreement and each of the other Loan Documents shall remain in full force and effect in accordance with their respective terms, and the Lenders and the Administrative Agent hereby require strict compliance with the terms and conditions of the Credit Agreement and the other Loan Documents in the future. Each of the Borrower, Holdings and the Subsidiary Loan Parties hereby (i) restates, ratifies, confirms and reaffirms its respective liabilities, payment and performance obligations (contingent or otherwise) and each and every term, covenant and condition set forth in the Credit Agreement and the other Loan Documents to which it is a party, all as amended by this Amendment, and the liens and security interests granted, created and perfected thereby and (ii) acknowledges and agrees that this Amendment shall not in any way affect the validity and enforceability of any Loan Document to which it is a party, or reduce, impair or discharge the obligations of the Borrower, Holdings, the Subsidiary Loan Parties or the Collateral granted to the Administrative Agent and/or the Lenders thereunder. The Lenders' agreement to the terms of this Amendment or any other amendment of the Credit Agreement or any other Loan Document shall not be deemed to establish or create a custom or course of dealing between the Borrower, Holdings, the Subsidiary Loan Parties or the Lenders, or any of them. This Amendment shall be deemed to be a "Loan Document" for all purposes under the Credit Agreement. After the effectiveness of this Amendment, each reference to the Credit Agreement in any of the Loan Documents shall be deemed to be a reference to the Credit Agreement as amended by this Amendment.

8. **Other Provisions.**

(a) This Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed to be an original, and all counterparts, taken together, shall constitute but one and the same document.

(b) The Borrower agrees to reimburse the Administrative Agent on demand for all reasonable costs and expenses (including, without limitation, reasonable and documented legal counsels' fees; provided that such counsel shall be limited to one legal counsel and, to the extent necessary, one local counsel in each relevant jurisdiction for the Administrative Agent and the Lenders, collectively, in each case selected by the Administrative Agent) incurred by the Administrative Agent in negotiating, documenting and consummating this Amendment, the other documents referred to herein, and the transactions contemplated hereby and thereby.

(c) THIS AMENDMENT SHALL BE GOVERNED BY AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH AND BE GOVERNED BY THE LAW (WITHOUT GIVING EFFECT TO THE CONFLICT OF LAW PRINCIPLES THEREOF THAT WOULD RESULT IN THE APPLICATION OF ANY LAW OTHER THAN THE LAW OF THE STATE OF NEW YORK) OF THE STATE OF NEW YORK.

(d) THIS AMENDMENT CONSTITUTES THE ENTIRE CONTRACT AMONG THE PARTIES HERETO RELATING TO THE SUBJECT MATTER HEREOF AND SUPERSEDES ANY AND ALL PREVIOUS DISCUSSIONS, CORRESPONDENCE, AGREEMENTS AND OTHER UNDERSTANDINGS, WHETHER ORAL OR WRITTEN, RELATING TO THE SUBJECT MATTER HEREOF.

(e) Each of the Borrower, Holdings and the Subsidiary Loan Parties agrees to take all further actions and execute such other documents and instruments as the Administrative Agent may from time to time reasonably request to carry out the transactions contemplated by this Amendment, the Loan Documents and all other agreements executed and delivered in connection herewith.

(f) THE PARTIES HERETO HAVE ENTERED INTO THIS AMENDMENT SOLELY TO AMEND TERMS OF THE CREDIT AGREEMENT. THE PARTIES DO NOT INTEND THIS AMENDMENT NOR THE TRANSACTIONS CONTEMPLATED HEREBY TO BE, AND THIS AMENDMENT AND THE TRANSACTION CONTEMPLATED HEREBY SHALL NOT BE CONSTRUED TO BE, A NOVATION OF ANY OF THE OBLIGATIONS OWING BY ANY LOAN PARTY UNDER OR IN CONNECTION WITH THE CREDIT AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS TO WHICH A LOAN PARTY IS A PARTY.

IN WITNESS WHEREOF, the Borrower, Holdings, the Subsidiary Loan Parties, the Lenders and the Administrative Agent have caused this First Amendment to Credit Agreement to be duly executed by their respective duly authorized officers and representatives as of the day and year first above written.

INTERACTIVE HOLDING CORP.

By: /s/ Yacov Kaufman

Name: Yacov Kaufman

Title: Director

By: /s/ Josef Mandelbaum

Name: Josef Mandelbaum

Title: Director

INCREDITONE INC.

By: /s/ Yacov Kaufman

Name: Yacov Kaufman

Title: Chief Financial Officer

By: /s/ Josef Mandelbaum

Name: Josef Mandelbaum

Title: Chief Executive Officer

[Signature Page to First Amendment to Credit Agreement]

INTERCEPT INTERACTIVE INC.

By: /s/ Michael Waxman-Lenz
Name: Michael Waxman-Lenz
Title: Chief Financial Officer

UUU HOLDING, LLC

By: /s/ Michael Waxman-Lenz
Name: Michael Waxman-Lenz
Title: Chief Financial Officer

SPARK FLOW LLC

By: /s/ Michael Waxman-Lenz
Name: Michael Waxman-Lenz
Title: Chief Financial Officer

JAMBO MEDIA LLC

By: /s/ Michael Waxman-Lenz
Name: Michael Waxman-Lenz
Title: Chief Financial Officer

WORLD WEB NETWORK HOLDING COMPANY, LLC

By: /s/ Michael Waxman-Lenz
Name: Michael Waxman-Lenz
Title: Chief Financial Officer

[Signature Page to First Amendment to Credit Agreement]

SUNTRUST BANK, in its capacities as a Lender and as Administrative Agent

By: /s/ Kevin Curtis

Name: Kevin Curtis

Title: Director

[Signature Page to First Amendment to Credit Agreement]

SILICON VALLEY BANK, as a Lender

By: /s/ Michael Moretti

Name: Michael Moretti

Title: Managing Director

[Signature Page to First Amendment to Credit Agreement]

CADENCE BANK, as a Lender

By: /s/ Steve Prichett

Name: Steve Prichett

Title: EVP

[End of Signatures]

[Signature Page to First Amendment to Credit Agreement]

SECOND AMENDMENT TO CREDIT AGREEMENT AND WAIVER

THIS SECOND AMENDMENT TO CREDIT AGREEMENT AND WAIVER is dated as of May 8, 2016 (this "Amendment"), by and among INTERACTIVE HOLDING CORP., a Delaware corporation (the "Borrower"), INCREDITONE INC., a Delaware corporation ("Holdings"), each of the Guarantors party hereto, each of the financial institutions party hereto as "Lenders" (the "Lenders") and SUNTRUST BANK, in its capacity as Administrative Agent (in such capacity, the "Administrative Agent").

W I T N E S S E T H:

WHEREAS, the Borrower, Holdings, certain of the Lenders and the Administrative Agent are parties to that certain Credit Agreement dated as of November 30, 2015, as amended by that certain First Amendment to Credit Agreement dated as of March 4, 2016 (the "Credit Agreement");

WHEREAS, the Administrative Agent and the Lenders have been made aware of certain Events of Default listed on Schedule 1 attached hereto (the "Specified Defaults") that have occurred and are continuing under the Credit Agreement;

WHEREAS, the Borrower has requested that the Administrative Agent and the Lenders waive the Specified Defaults and amend certain provisions of the Credit Agreement, all as more particularly set forth below;

WHEREAS, subject to the terms and conditions set forth herein, the Administrative Agent and the Lenders are willing to so waive the Specified Defaults and amend the Credit Agreement, all on the terms and conditions contained in this Amendment;

NOW, THEREFORE, for and in consideration of the above premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by the parties hereto, the parties hereto hereby agree as follows:

Section 1. Defined Terms. Capitalized terms which are used herein without definition and which are defined in the Credit Agreement shall have the same meanings herein as in the Credit Agreement; provided, that, solely for purposes of this Amendment, Perion Network Ltd. shall be deemed to be included in the definition of the term "Loan Party".

Section 2. Amendments to Credit Agreement.

(a) The Credit Agreement is hereby amended by restating Section 5.1(c) thereof in its entirety as follows:

(c) beginning May 10, 2016 until the occurrence of an Excluded Account Event, on the second Business Day of each calendar week a written report, in form and substance satisfactory to the Administrative Agent, detailing, as of the last Business Day of the immediately prior calendar week (i) the aggregate dollar amount of checks issued and outstanding on the Excluded Account and (ii) the balance on deposit in the Excluded Account;

(b) The Credit Agreement is hereby amended by deleting "March 31, 2016" in the first line of Section 5.11 of the Credit Agreement and substituting "August 31, 2016" in lieu thereof.

(c) The Credit Agreement is hereby further amended by restating the last sentence of Section 5.11 thereof in its entirety as follows:

"The parties hereto agree that, prior to August 31, 2016, account number 1894408945 at Comerica Bank (the "Excluded Account") shall not be required to be subject to a Control Account Agreement pursuant to this Section 5.11. On and after August 31, 2016, the Excluded Account shall either (i) be subject to a Control Account Agreement, (ii) qualify and continue to be maintained as an Unrestricted Account or (iii) be closed (the occurrence of any of the foregoing, an "Excluded Account Event"). Notwithstanding the foregoing, on and after May 8, 2016, the Borrower shall cause any and all cash at any time held in the Excluded Account to be swept and deposited on a daily basis into a Controlled Account with a Permitted Third Party Bank which is subject to a Control Account Agreement; provided, however that the Borrower shall be permitted to maintain a cash balance in the Excluded Account in an amount not exceeding the amount necessary, in Borrower's reasonable discretion, to cover (i) the amount of any checks issued by the Borrower or any of its Subsidiaries that have not cleared the Excluded Account and (ii) expense payables of the Borrower and its Subsidiaries in the ordinary course of business that are due during the next 15 consecutive days."

Section 3. Waiver. Subject to the satisfaction of the conditions set forth in Section 4 below, in reliance on the representations and warranties set forth in Sections 5 and 7 below, and subject to the limitations set forth in Section 8 below, the Lenders hereby waive the Specified Defaults. The Borrower acknowledges and agrees that the waiver contained in this Section 3 shall not waive or amend (or be deemed to be or constitute an amendment to or waiver of) any other covenant, term or provision in the Credit Agreement or hinder, restrict or otherwise modify the rights and remedies of the Lenders and the Administrative Agent following the occurrence of any other present or future Default or Event of Default under the Credit Agreement or any other Loan Document. The waiver of each Specified Default set forth above is solely with respect to the period(s) corresponding to such Specified Default prior to the date hereof.

Section 4. Conditions Precedent to Effectiveness. The effectiveness of this Amendment is subject to the truth and accuracy of the warranties and representations set forth in Sections 5 and 7 below and receipt by the Administrative Agent of each of the following, each of which shall be in form and substance satisfactory to Administrative Agent:

(a) This Amendment, duly executed and delivered by the Borrower, Holdings, the Subsidiary Loan Parties, the Required Lenders and the Administrative Agent;

(b) A certificate of the Borrower dated as of the date hereof signed by a Responsible Officer of the Borrower certifying that, immediately before and after giving effect to this Amendment (i) the representations and warranties contained in Article IV of the Credit Agreement and the other Loan Documents are true and correct on and as of the date hereof, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they shall have been true and correct as of such earlier date; (ii) since December 31, 2014, there has been no event, development or circumstance, either individually or in the aggregate, that has had or could reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect; and (iii) no Default or Event of Default (other than such Default or Event of Default expressly waived by Section 3 above) has occurred and is continuing as of the date hereof and no Default or Event of Default will exist after giving effect to the amendments contemplated by this Amendment;

(c) A Reaffirmation of Obligations Under Loan Documents (the "Reaffirmation") dated as of the date hereof duly executed by each Loan Party, in the form of Exhibit I attached hereto;

(d) The payment of all fees and other amounts due and payable on or prior to the effective date of this Amendment, including reimbursement or payment of all out-of-pocket expenses (including reasonable fees, charges and disbursements of counsel to the Administrative Agent in connection with the preparation, negotiation, execution and delivery of this Amendment and the other documents and agreements executed and delivered in connection herewith) required to be reimbursed or paid by the Borrower and Holdings hereunder; and

(e) Such other documents as the Administrative Agent may reasonably request.

Section 5. Representations. Each of the Borrower and Holdings represents and warrants to the Administrative Agent and the Lenders that:

(g) Power and Authority. Each of the Borrower and the other Loan Parties have the power and authority to execute, deliver and perform the terms and provisions of this Amendment and the Credit Agreement, as amended by this Amendment, and have taken all necessary corporate action to duly authorize the execution, delivery and performance of this Amendment. Each of this Amendment and the Credit Agreement, as amended by this Amendment, constitutes the legal, valid and binding obligation of the Borrower and Holdings enforceable in accordance with its terms, except to the extent that the enforceability thereof may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws generally affecting creditors' rights and by equitable principles.

(h) No Violation. The execution, delivery and performance by the Borrower and the other Loan Parties of this Amendment, and compliance by them with the terms and provisions of the Credit Agreement, as amended by this Amendment: (i) will not contravene any provision of any law, statute, rule or regulation or any order, writ, injunction or decree of any court or federal, state or local Governmental Authority, (ii) will not conflict with or result in any breach of any of the terms, covenants, conditions or provisions of, or constitute a default under, or result in the creation or imposition of (or the obligation to create or impose) any lien upon any of the property or assets of any Loan Party pursuant to the terms of any indenture, mortgage, deed of trust, credit agreement or loan agreement, or any other agreement, contract or instrument, to which any Loan Party is a party or by which they or any of their property or assets is bound or to which they may be subject or (iii) will not violate any provision of the certificate or articles of incorporation or bylaws of the Borrower, Holdings or any other Loan Party.

(i) Governmental Approvals. No order, consent, approval, license, authorization or validation of, or filing, recording or registration with (except for those that have otherwise been obtained or made on or prior to the date of the effectiveness of this Amendment and which remain in full force and effect on such date), or exemption by, any Governmental Authority, is required to authorize, or is required in connection with, (i) the execution, delivery and performance of this Amendment by the Borrower or Holdings or (ii) the legality, validity, binding effect or enforceability of the Credit Agreement, as amended by this Amendment against the Borrower or Holdings.

(j) No Default. No Default or Event of Default (other than such Default or Event of Default expressly waived by Section 3 above) has occurred and is continuing as of the date hereof and no Default or Event of Default will exist immediately after giving effect to this Amendment.

(k) No Impairment. The execution, delivery, performance and effectiveness of this Amendment will not: (a) impair the validity, effectiveness or priority of the Liens granted pursuant to any Loan Document, and such Liens continue unimpaired with the same priority to secure repayment of all of the applicable Obligations, whether heretofore or hereafter incurred, and (b) require that any new filings be made or other action taken to perfect or to maintain the perfection of such Liens.

Section 6. [Reserved].

Section 7. Reaffirmation of Representations. Each of the Borrower, Holdings and the Subsidiary Loan Parties hereby repeats and reaffirms all representations and warranties made to the Administrative Agent and the Lenders in the Credit Agreement and the other Loan Documents on and as of the date hereof (and after giving effect to this Amendment) with the same force and effect as if such representations and warranties were set forth in this Amendment in full (except to the extent that such representations and warranties relate expressly to an earlier date, in which case such representations and warranties were true and correct as of such earlier date).

Section 8. No Further Amendments; Ratification of Liability. Except as expressly amended or waived hereby, the Credit Agreement and each of the other Loan Documents shall remain in full force and effect in accordance with their respective terms, and the Lenders and the Administrative Agent hereby require strict compliance with the terms and conditions of the Credit Agreement and the other Loan Documents in the future. Each of the Borrower, Holdings and the Subsidiary Loan Parties hereby (i) restates, ratifies, confirms and reaffirms its respective liabilities, payment and performance obligations (contingent or otherwise) and each and every term, covenant and condition set forth in the Credit Agreement and the other Loan Documents to which it is a party, all as amended by this Amendment, and the liens and security interests granted, created and perfected thereby and (ii) acknowledges and agrees that this Amendment shall not in any way affect the validity and enforceability of any Loan Document to which it is a party, or reduce, impair or discharge the obligations of the Borrower, Holdings, the Subsidiary Loan Parties or the Collateral granted to the Administrative Agent and/or the Lenders thereunder. The Lenders' agreement to the terms of this Amendment or any other amendment of the Credit Agreement or any other Loan Document shall not be deemed to establish or create a custom or course of dealing between the Borrower, Holdings, the Subsidiary Loan Parties or the Lenders, or any of them. This Amendment shall be deemed to be a "Loan Document" for all purposes under the Credit Agreement. After the effectiveness of this Amendment, each reference to the Credit Agreement in any of the Loan Documents shall be deemed to be a reference to the Credit Agreement as amended by this Amendment.

(g) This Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed to be an original, and all counterparts, taken together, shall constitute but one and the same document.

(h) The Borrower agrees to reimburse the Administrative Agent on demand for all reasonable costs and expenses (including, without limitation, reasonable and documented legal counsels' fees; provided that such counsel shall be limited to one legal counsel and, to the extent necessary, one local counsel in each relevant jurisdiction for the Administrative Agent and the Lenders, collectively, in each case selected by the Administrative Agent) incurred by the Administrative Agent in negotiating, documenting and consummating this Amendment, the other documents referred to herein, and the transactions contemplated hereby and thereby.

(i) THIS AMENDMENT SHALL BE GOVERNED BY AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH AND BE GOVERNED BY THE LAW (WITHOUT GIVING EFFECT TO THE CONFLICT OF LAW PRINCIPLES THEREOF THAT WOULD RESULT IN THE APPLICATION OF ANY LAW OTHER THAN THE LAW OF THE STATE OF NEW YORK) OF THE STATE OF NEW YORK.

(j) THIS AMENDMENT CONSTITUTES THE ENTIRE CONTRACT AMONG THE PARTIES HERETO RELATING TO THE SUBJECT MATTER HEREOF AND SUPERSEDES ANY AND ALL PREVIOUS DISCUSSIONS, CORRESPONDENCE, AGREEMENTS AND OTHER UNDERSTANDINGS, WHETHER ORAL OR WRITTEN, RELATING TO THE SUBJECT MATTER HEREOF.

(k) Each of the Borrower, Holdings and the Subsidiary Loan Parties agrees to take all further actions and execute such other documents and instruments as the Administrative Agent may from time to time reasonably request to carry out the transactions contemplated by this Amendment, the Loan Documents and all other agreements executed and delivered in connection herewith.

THE LOAN PARTIES DO NOT INTEND THIS AMENDMENT NOR THE TRANSACTIONS CONTEMPLATED HEREBY TO BE, AND THIS AMENDMENT AND THE TRANSACTION CONTEMPLATED HEREBY SHALL NOT BE CONSTRUED TO BE, A NOVATION OF ANY OF THE OBLIGATIONS OWING BY ANY LOAN PARTY UNDER OR IN CONNECTION WITH THE CREDIT AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS TO WHICH A LOAN PARTY IS A PARTY.

[Signature Page Follows]

IN WITNESS WHEREOF, the Borrower, Holdings, the Subsidiary Loan Parties, the Lenders and the Administrative Agent have caused this Second Amendment to Credit Agreement and Waiver to be duly executed by their respective duly authorized officers and representatives as of the day and year first above written.

INTERACTIVE HOLDING CORP.

By: /s/ Josef Mandelbaum
Name: Josef Mandelbaum
Title: Director

By: /s/ Yacov Kaufman
Name: Yacov Kaufman
Title: Director

INCREDITONE INC.

By: /s/ Josef Mandelbaum
Name: Josef Mandelbaum
Title: Chief Executive Officer

By: /s/ Yacov Kaufman
Name: Yacov Kaufman
Title: Chief Financial Officer

[Signature Page to Second Amendment to Credit Agreement and Waiver]

INTERCEPT INTERACTIVE INC.

By: /s/ Michael Waxman-Lenz
Name: Michael Waxman-Lenz
Title: Chief Financial Officer

UUU HOLDING, LLC

By: /s/ Michael Waxman-Lenz
Name: Michael Waxman-Lenz
Title: Chief Financial Officer

SPARK FLOW LLC

By: /s/ Michael Waxman-Lenz
Name: Michael Waxman-Lenz
Title: Chief Financial Officer

JAMBO MEDIA LLC

By: /s/ Michael Waxman-Lenz
Name: Michael Waxman-Lenz
Title: Chief Financial Officer

WORLD WEB NETWORK HOLDING COMPANY, LLC

By: /s/ Michael Waxman-Lenz
Name: Michael Waxman-Lenz
Title: Chief Financial Officer

[Signature Page to Second Amendment to Credit Agreement and Waiver]

SUNTRUST BANK, in its capacities as a Lender and as Administrative Agent

By: /s/ Eric Saxon

Name: Eric Saxon

Title: Vice President

[Signature Page to Second Amendment to Credit Agreement and Waiver]

SILICON VALLEY BANK, as a Lender

By: /s/ Michael Moretti

Name: Michael Moretti

Title: Managing Director

[Signature Page to Second Amendment to Credit Agreement and Waiver]

CADENCE BANK, as a Lender

By: /s/ Steve Prichett

Name: Steve Prichett

Title: EVP

[End of Signatures]

[Signature Page to Second Amendment to Credit Agreement and Waiver]

THIRD AMENDMENT TO CREDIT AGREEMENT AND LIMITED WAIVER

THIS THIRD AMENDMENT TO CREDIT AGREEMENT AND LIMITED WAIVER is dated as of October 7, 2016 (this "Amendment"), by and among INTERACTIVE HOLDING CORP., a Delaware corporation (the "Borrower"), INCREDITONE INC., a Delaware corporation ("Holdings"), each of the Guarantors party hereto, each of the financial institutions party hereto as "Lenders" (the "Lenders") and SUNTRUST BANK, in its capacity as Administrative Agent (in such capacity, the "Administrative Agent").

W I T N E S S E T H:

WHEREAS, the Borrower, Holdings, certain of the Lenders and the Administrative Agent are parties to that certain Credit Agreement dated as of November 30, 2015, as amended by that certain First Amendment to Credit Agreement dated as of March 4, 2016 and by that certain Second Amendment to Credit Agreement and Waiver dated as of May 8, 2016 (as so amended, the "Credit Agreement");

WHEREAS, the Administrative Agent and the Lenders have been made aware of certain Defaults and Events of Default listed on Schedule 1 attached hereto (the "Specified Defaults") that have occurred and are continuing under the Credit Agreement;

WHEREAS, the Borrower has requested that the Administrative Agent and the Lenders waive the Specified Defaults and amend certain provisions of the Credit Agreement, all as more particularly set forth below;

WHEREAS, subject to the terms and conditions set forth herein, the Administrative Agent and the Lenders are willing to so waive the Specified Defaults and amend the Credit Agreement, all on the terms and conditions contained in this Amendment;

NOW, THEREFORE, for and in consideration of the above premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by the parties hereto, the parties hereto hereby agree as follows:

Section 1. Defined Terms. Capitalized terms which are used herein without definition and which are defined in the Credit Agreement shall have the same meanings herein as in the Credit Agreement.

Section 2. Amendments to Credit Agreement.

(d) The Credit Agreement is hereby amended by deleting the defined terms "Aggregate Revolving Commitment Amount", "Consolidated EBITDA", "Consolidated Fixed Charges", "LC Commitment" and "Swingline Commitment" set forth in Section 1.1 thereof in its entirety and substituting in lieu thereof the following:

"Aggregate Revolving Commitment Amount" shall mean the aggregate principal amount of the Aggregate Revolving Commitments from time to time. On October 7, 2016, the Aggregate Revolving Commitment Amount is \$2,500,000.

"Consolidated EBITDA" shall mean, for the Borrower and its Subsidiaries for any period, an amount equal to the sum of (i) Consolidated Net Income for such period plus (ii) to the extent deducted in determining Consolidated Net Income for such period and to the extent not excluded from Consolidated Net Income pursuant to the definition thereof, and without duplication, (A) Consolidated Interest Expense, (B) income tax expense determined on a consolidated basis in accordance with GAAP, (C) depreciation and amortization determined on a consolidated basis in accordance with GAAP, (D) non-cash charges related to the mark-to-market treatment of obligations under Hedging Transactions, (E) any extraordinary, unusual or non-recurring expenses or losses or restructuring charges or costs, all as determined in accordance with GAAP; provided, that, the amount under this clause (E) shall not exceed (x) \$1,250,000 in the aggregate for any period of four (4) consecutive Fiscal Quarter period through December 31, 2016 and (y) and \$1,000,000 in the aggregate during any Fiscal Year after December 31, 2016; (F) transaction costs and expenses paid in cash in connection with the Related Transactions in an aggregate amount not to exceed \$13,756,501; (G) non-cash charges related to the Great Plains accounting software and related services; provided, that, the amount under this clause (G) shall not exceed \$650,000 in the aggregate; (H) all non-cash foreign currency exchange losses or charges and non-cash expenses deducted as a result of any grant of Capital Stock to employees, officers or directors for such period (but excluding any non-cash loss, charge or expense that is an accrual of or a reserve for a cash expenditure or payment to be made, or anticipated to be made, in a future period); (I) all non-cash expenses allocated by the Parent to the Borrower related to headcount at the Israel development cost center for the benefit of the Borrower in an aggregate amount not to exceed (x) for the Fiscal Year ending December 31, 2016, \$1,750,000, (y) for the Fiscal Year ending December 31, 2017, \$2,500,000 and (z) for the Fiscal Year ending December 31, 2018, 3,750,000; provided that, for purposes of calculating compliance with the financial covenants set forth in Article VI, to the extent that during such period any Borrower Loan Party shall have consummated a Permitted Acquisition or other Acquisition approved in writing by the Required Lenders, or any sale, transfer or other disposition of any Person, business, property or assets, Consolidated EBITDA shall be calculated on a Pro Forma Basis with respect to such Person, business, property or assets so acquired or disposed of. Notwithstanding the foregoing, but subject to any adjustment set forth above with respect to the immediately preceding proviso, Consolidated EBITDA shall be \$10,118,601, \$667,379, \$6,920,800 and \$6,645,632 for the Fiscal Quarters ended December 31, 2014, March 31, 2015, June 30, 2015 and September 30, 2015, respectively.

"Consolidated Fixed Charges" shall mean, for the Borrower and its Subsidiaries for any period, the sum (without duplication) of (i) Consolidated Interest Expense for such period, (ii) scheduled principal payments made on Consolidated Total Debt (including the Term Loan but excluding the Revolving Loans) during such period (as such scheduled principal payments may be reduced as a result of any voluntary or mandatory prepayments of the principal amounts of such Indebtedness for such period or any prior period) and (iii) payments in respect of Capital Lease Obligations of the Borrower and its Subsidiaries during such period. For purposes of calculating the Consolidated Fixed Charges for the four quarters ending December 31, 2015, March 31, 2016, June 30, 2016 and September 30, 2016, scheduled payments of principal of Consolidated Total Debt shall be deemed to be \$625,000 for each such quarter. For purposes of calculating Consolidated Fixed Charges for the December 31, 2015 determination date, Consolidated Interest Expense shall be deemed to be \$3,000,000. For the March 31, 2016 through December 31, 2016 determination dates, Consolidated Interest Expense shall be determined on a cumulative basis for the period beginning January 1, 2016 and ending on the applicable date of determination and annualized. For the determination dates ending March 31, 2017 and thereafter, Consolidated Interest Expense shall be determined on a trailing four quarter basis.

"LC Commitment" shall mean that portion of the Aggregate Revolving Commitments that may be used by the Borrower for the issuance of Letters of Credit in an aggregate face amount not to exceed \$2,500,000.

"Swingline Commitment" shall mean the commitment of the Swingline Lender to make Swingline Loans in an aggregate principal amount at any time outstanding not to exceed \$2,500,000.

(e) The Credit Agreement is hereby further amended by adding the following new defined term "Third Amendment Effective Date" to Section 1.1 thereof in the appropriate alphabetical order:

"Third Amendment Effective Date" shall mean October 7, 2016.

(f) The Credit Agreement is hereby further amended by deleting the first grid immediately under the heading "COMMITMENT AMOUNTS" on Schedule I attached thereto and substituting in lieu thereof the following:

Lender	Revolving Commitment	Term Loan Commitment Amount
SunTrust Bank	\$ 833,333.34	\$ 0
Silicon Valley Bank	\$ 833,333.33	\$ 0
Cadence Bank	\$ 833,333.33	\$ 0
TOTAL	\$ 2,500,000	\$ 0

(g) The Credit Agreement is hereby further amended by deleting clause (c) of Section 5.11 thereof in its entirety and substituting in lieu thereof the following:

"(c) at any time after the occurrence and during the continuance of an Event of Default, at the request of the Administrative Agent or the Required Lenders, Holdings and the Borrower will, and will cause each other Loan Party to, cause all payments constituting proceeds of accounts or other Collateral to be directed into deposit accounts that are subject to Control Account Agreements. The parties hereto agree that account number 1894408945 at Comerica Bank (the "Excluded Account") shall not be required to be subject to a Control Account Agreement pursuant to this Section 5.11. On or prior to May 31, 2017, the Excluded Account shall be closed (such closure, an "Excluded Account Event"). Notwithstanding the foregoing, at all times prior to May 31, 2017, the Borrower shall cause any and all cash (except as provided in the proviso in this Section 5.11(c)) at any time held in the Excluded Account to be swept and deposited on a daily basis into a Controlled Account with a Permitted Third Party Bank which is subject to a Control Account Agreement; provided, however, that the Borrower may maintain a balance of \$2000 at all times in the Excluded Account to pay wiring and other banking fees to Comerica Bank."

(h) The Credit Agreement is hereby further amended by deleting Section 6.1 thereof (Total Leverage Ratio) in its entirety and substituting in lieu thereof the following:

"Section 6.1. Total Leverage Ratio. The Borrower will not permit the Total Leverage Ratio, as of the last day of each Fiscal Quarter specified below, to exceed the ratio set forth below opposite such corresponding Fiscal Quarter:

<u>Fiscal Quarter</u>	<u>Total Leverage Ratio</u>
Each Fiscal Quarter ending on or prior to March 31, 2016	2.50:1.00
Fiscal Quarter ending June 30, 2016	2.50:1.00
Fiscal Quarter ending September 30, 2016	2.75:1.00
Fiscal Quarter ending December 31, 2016	2.95:1.00
Fiscal Quarter ending March 31, 2017	2.95:1.00
Fiscal Quarter ending June 30, 2017	2.75:1.00
Fiscal Quarter ending September 30, 2017	2.50:1.00

Fiscal Quarter ending December 31, 2017	2.50:1.00
Fiscal Quarter ending March 31, 2018	2.25:1.00
Fiscal Quarter ending June 30, 2018	2.00:1.00
Fiscal Quarter ending September 30, 2018	1.75:1.00
Fiscal Quarter ending December 31, 2018 and each Fiscal Quarter thereafter"	1.75:1.00

(i) The Credit Agreement is hereby further amended by deleting Section 6.2 thereof (Fixed Charge Coverage Ratio) in its entirety and substituting in lieu thereof the following:

"Section 6.2. Fixed Charge Coverage Ratio. The Borrower will not permit the Fixed Charge Coverage Leverage Ratio, as of the last day of each Fiscal Quarter specified below, to be less than the ratio set forth below opposite such corresponding Fiscal Quarter:

<u>Fiscal Quarter</u>	<u>Fixed Charge Coverage Ratio</u>
Each Fiscal Quarter ending on or prior to March 31, 2016	2.00:1.00
Fiscal Quarter ending June 30, 2016	2.00:1.00
Fiscal Quarter ending September 30, 2016	1.50:1.00
Fiscal Quarter ending December 31, 2016	1.50:1.00
Fiscal Quarter ending March 31, 2017	1.50:1.00
Fiscal Quarter ending June 30, 2017	1.50:1.00
Fiscal Quarter ending September 30, 2017	1.55:1.00

Fiscal Quarter ending December 31, 2017	1.60:1.00
Fiscal Quarter ending March 31, 2018	1.60:1.00
Fiscal Quarter ending June 30, 2018	1.75:1.00
Fiscal Quarter ending September 30, 2018	1.75:1.00
Fiscal Quarter ending December 31, 2018 and each Fiscal Quarter thereafter"	2.00:1.00

(j) The Credit Agreement is hereby further amended by deleting Section 7.4(d) thereof in its entirety and substituting in lieu thereof the following:

(d) Investments made by the Borrower in or to any Subsidiary of the Borrower and by any Subsidiary of the Borrower to the Borrower or in or to another Subsidiary of the Borrower; provided that the aggregate amount of Investments by the Borrower Loan Parties in or to, and Guarantees by the Borrower Loan Parties of Indebtedness of, any Subsidiary of the Borrower that is not a Subsidiary Loan Party shall not exceed \$2,000,000 in the aggregate at any time outstanding (the "Investment Cap"); provided further that Investments made prior to the Third Amendment Effective Date by the Borrower Loan Parties in or to, and Guarantees by the Borrower Loan Parties of Indebtedness of, any Subsidiary of the Borrower that is not a Subsidiary Loan Party, and that are described on Schedule 7.4(a) (which Schedule shall include the outstanding amount of all such Investments set forth on such Schedule as of the Third Amendment Effective Date) shall be excluded for purposes of determining compliance with this clause (d) as it relates to the Investment Cap.

(k) The Credit Agreement is hereby further amended by adding ", 5.11(c)" immediately after the reference therein to "5.9" in Section 8.1(d) thereof.

(l) The Credit Agreement is hereby further amended by deleting Section 8.1(h) thereof in its entirety and substituting in lieu thereof the following:

"(h) Holdings or any of its Subsidiaries (other than Foreign Subsidiaries that are Immaterial Subsidiaries liquidated and dissolved in accordance with Section 7.3(a)(iv)) shall (i) commence a voluntary case or other proceeding or file any petition seeking liquidation, reorganization or other relief under any federal, state or foreign bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a custodian, trustee, receiver, liquidator or other similar official of it or any substantial part of its property, (ii) consent to the institution of, or fail to contest in a timely and appropriate manner, any proceeding or petition described in subsection (i) of this Section, (iii) apply for or consent to the appointment of a custodian, trustee, receiver, liquidator or other similar official for Holdings or any such Subsidiary or for a substantial part of its assets, (iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding, (v) make a general assignment for the benefit of creditors, or (vi) take any action for the purpose of effecting any of the foregoing; or"

(m) The Credit Agreement is hereby further amended by adding Schedule 7.4(a) attached hereto.

Section 3. Waiver and Acknowledgment.

(a) Subject to the satisfaction of the conditions set forth in Section 4 below, in reliance on the representations and warranties set forth in Sections 5 and 7 below, and subject to the limitations set forth in Section 8 below, the Lenders hereby waive the Specified Defaults. The Borrower acknowledges and agrees that the waiver contained in this Section 3 shall not waive or amend (or be deemed to be or constitute an amendment to or waiver of) any other covenant, term or provision in the Credit Agreement or hinder, restrict or otherwise modify the rights and remedies of the Lenders and the Administrative Agent following the occurrence of any other present or future Default or Event of Default under the Credit Agreement or any other Loan Document. The waiver of each Specified Default set forth above is solely with respect to the period(s) corresponding to such Specified Default prior to the date hereof.

(b) Notwithstanding anything to the contrary contained in the Credit Agreement (as amended by this Amendment), the Administrative Agent and the Required Lenders acknowledge and agree that (i) they have received notice that U.U.U.I. Undertone Israel Ltd., a private limited liability company organized under the laws of Israel ("U.U.U.I."), has been designated by the Borrower as an Immaterial Subsidiary, (ii) the liquidation and dissolution of U.U.U.I. is not materially disadvantageous to the Lenders and (iii) the proposed conversion of intercompany loans in the aggregate amount of approximately \$12,000,000 made by Intercept Interactive Inc. to each of World Web Network Ltd. and World Web Network GmbH to equity will not be a Default and, if such conversion has occurred prior to the effectiveness of this Amendment, is not a Default, under the Credit Agreement (as amended by this Amendment), including but not limited to Section 7.4(d) thereof; provided, that, such acknowledgment and agreement are conditioned upon there being no adverse effect on the Lenders as a result of such conversion (other than the fact that Intercept Interactive Inc. would no longer hold an intercompany receivable in the amount of approximately \$12,000,000).

Section 4. Conditions Precedent to Effectiveness. The effectiveness of this Amendment is subject to the truth and accuracy of the warranties and representations set forth in Sections 5 and 7 below and receipt by the Administrative Agent of each of the following, each of which shall be in form and substance satisfactory to Administrative Agent:

(a) This Amendment, duly executed and delivered by the Borrower, Holdings, the Subsidiary Loan Parties, the Required Lenders and the Administrative Agent;

(b) A certificate of the Borrower dated as of the date hereof signed by a Responsible Officer of the Borrower certifying that, immediately before and after giving effect to this Amendment (i) the representations and warranties contained in Article IV of the Credit Agreement and the other Loan Documents are true and correct on and as of the date hereof, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they shall have been true and correct as of such earlier date; (ii) since December 31, 2015, there has been no event, development or circumstance, either individually or in the aggregate, that has had or could reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect; and (iii) no Default or Event of Default (other than such Default or Event of Default expressly waived by Section 3 above) has occurred and is continuing as of the date hereof and no Default or Event of Default will exist after giving effect to the amendments contemplated by this Amendment;

(c) A certified copy of resolutions adopted by the Board of Directors of the Borrower authorizing and approving the transactions contemplated by this Amendment;

(d) Evidence that the Borrower shall have received an indirect cash equity contribution from the Parent immediately prior to the effectiveness of this Amendment in the amount of \$4,000,000 and payment by the Borrower in an amount equal to \$2,000,000 in immediately available funds to be applied as a prepayment to the outstanding principal amount of the Term Loans in accordance with Section 6 of this Amendment;

(e) A Reaffirmation of Obligations Under Loan Documents (the "Reaffirmation") dated as of the date hereof duly executed by each Loan Party and the Parent, in the form of Exhibit I attached hereto;

(f) The payment of all fees and other amounts due and payable on or prior to the effective date of this Amendment, including reimbursement or payment of all out-of-pocket expenses (including reasonable fees, charges and disbursements of counsel to the Administrative Agent in connection with the preparation, negotiation, execution and delivery of this Amendment and the other documents and agreements executed and delivered in connection herewith) required to be reimbursed or paid by the Borrower and Holdings hereunder; and

(g) Such other documents as the Administrative Agent may reasonably request.

Section 5. Representations. Each of the Borrower and Holdings represents and warrants to the Administrative Agent and the Lenders that:

(l) Power and Authority. Each of the Borrower and the other Loan Parties have the power and authority to execute, deliver and perform the terms and provisions of this Amendment and the Credit Agreement, as amended by this Amendment, and have taken all necessary corporate action to duly authorize the execution, delivery and performance of this Amendment. Each of this Amendment and the Credit Agreement, as amended by this Amendment, constitutes the legal, valid and binding obligation of the Borrower and Holdings enforceable in accordance with its terms, except to the extent that the enforceability thereof may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws generally affecting creditors' rights and by equitable principles.

(m) No Violation. The execution, delivery and performance by the Borrower and the other Loan Parties of this Amendment, and compliance by them with the terms and provisions of the Credit Agreement, as amended by this Amendment: (i) will not contravene any provision of any law, statute, rule or regulation or any order, writ, injunction or decree of any court or federal, state or local Governmental Authority, (ii) will not conflict with or result in any breach of any of the terms, covenants, conditions or provisions of, or constitute a default under, or result in the creation or imposition of (or the obligation to create or impose) any lien upon any of the property or assets of any Loan Party pursuant to the terms of any indenture, mortgage, deed of trust, credit agreement or loan agreement, or any other agreement, contract or instrument, to which any Loan Party is a party or by which they or any of their property or assets is bound or to which they may be subject or (iii) will not violate any provision of the certificate or articles of incorporation or bylaws of the Borrower, Holdings or any other Loan Party.

(n) Governmental Approvals. No order, consent, approval, license, authorization or validation of, or filing, recording or registration with (except for those that have otherwise been obtained or made on or prior to the date of the effectiveness of this Amendment and which remain in full force and effect on such date), or exemption by, any Governmental Authority, is required to authorize, or is required in connection with, (i) the execution, delivery and performance of this Amendment by the Borrower or Holdings or (ii) the legality, validity, binding effect or enforceability of the Credit Agreement, as amended by this Amendment against the Borrower or Holdings.

(o) No Default. No Default or Event of Default (other than such Default or Event of Default expressly waived by Section 3 above) has occurred and is continuing as of the date hereof and no Default or Event of Default will exist immediately after giving effect to this Amendment.

(p) No Impairment. The execution, delivery, performance and effectiveness of this Amendment will not: (a) impair the validity, effectiveness or priority of the Liens granted pursuant to any Loan Document, and such Liens continue unimpaired with the same priority to secure repayment of all of the applicable Obligations, whether heretofore or hereafter incurred, and (b) require that any new filings be made or other action taken to perfect or to maintain the perfection of such Liens.

Section 6. Common Equity Capital Contribution/Prepayment of Term Loans/Agreement regarding EBITDA Addback.

(a) The parties hereto acknowledge and agree that (i) the prepayment made by the Borrower in the amount of \$2,000,000 on September 29, 2016 was irrevocable and was applied as a prepayment to the Term Loans on such date to the principal installments of the Term Loans in inverse order of maturity (notwithstanding anything to the contrary in the Credit Agreement) and (ii) the prepayment made by the Borrower in the amount of \$2,000,000 (described in Section 4(d) of this Amendment) shall be irrevocable and applied as a prepayment to the Term Loans on the date hereof to the principal installments of the Term Loans in inverse order of maturity (notwithstanding anything to the contrary in the Credit Agreement). Such prepayment described in clause (ii) immediately above shall be made *pro rata* to the Lenders based on their Pro Rata Shares of the Term Loans. The Administrative Agent and the Lenders waive any prior notice requirements under the Credit Agreement in respect of such prepayment.

(b) Each of Holdings and the Borrower acknowledge and agree that the \$2,000,000 used to make the prepayment described in clause (a)(ii) immediately above (together with the additional \$2,000,000 cash equity contribution that was received from the Parent at the same time) was received as a common equity capital contribution from the Parent to Holdings, which in turn was used by Holdings to make a common equity capital contribution into the Borrower, and such contributions do not qualify as, and will not be included as, an "Excluded Equity Contribution" or a "Specified Equity Contribution" under and as defined in the Credit Agreement.

(c) The Loan Parties acknowledge and agree that (i) the expenses described in clause (I) of the definition of "Consolidated EBITDA" shall not be paid, repaid or reimbursed by any Loan Party to any other Person, whether in cash or otherwise, and (ii) the Loan Parties will not, and will not allow or permit any of their Subsidiaries to, set off against any obligation or liability owing to such Loan Party, whether directly or indirectly, on account of, or in respect of, any of the expenses described in clause (I) of the definition of "Consolidated EBITDA".

Section 7. Reaffirmation of Representations. Each of the Borrower, Holdings and the Subsidiary Loan Parties hereby repeats and reaffirms all representations and warranties made to the Administrative Agent and the Lenders in the Credit Agreement and the other Loan Documents on and as of the date hereof (and after giving effect to this Amendment) with the same force and effect as if such representations and warranties were set forth in this Amendment in full (except to the extent that such representations and warranties relate expressly to an earlier date, in which case such representations and warranties were true and correct as of such earlier date).

Section 8. No Further Amendments; Ratification of Liability. Except as expressly amended or waived hereby, the Credit Agreement and each of the other Loan Documents shall remain in full force and effect in accordance with their respective terms, and the Lenders and the Administrative Agent hereby require strict compliance with the terms and conditions of the Credit Agreement and the other Loan Documents in the future. Each of the Borrower, Holdings and the Subsidiary Loan Parties hereby (i) restates, ratifies, confirms and reaffirms its respective liabilities, payment and performance obligations (contingent or otherwise) and each and every term, covenant and condition set forth in the Credit Agreement and the other Loan Documents to which it is a party, all as amended by this Amendment, and the liens and security interests granted, created and perfected thereby and (ii) acknowledges and agrees that this Amendment shall not in any way affect the validity and enforceability of any Loan Document to which it is a party, or reduce, impair or discharge the obligations of the Borrower, Holdings, the Subsidiary Loan Parties or the Collateral granted to the Administrative Agent and/or the Lenders thereunder. The Lenders' agreement to the terms of this Amendment or any other amendment of the Credit Agreement or any other Loan Document shall not be deemed to establish or create a custom or course of dealing between the Borrower, Holdings, the Subsidiary Loan Parties or the Lenders, or any of them. This Amendment shall be deemed to be a "Loan Document" for all purposes under the Credit Agreement. After the effectiveness of this Amendment, each reference to the Credit Agreement in any of the Loan Documents shall be deemed to be a reference to the Credit Agreement as amended by this Amendment.

(l) This Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed to be an original, and all counterparts, taken together, shall constitute but one and the same document.

(m) The Borrower agrees to reimburse the Administrative Agent on demand for all reasonable costs and expenses (including, without limitation, reasonable and documented legal counsels' fees; provided that such counsel shall be limited to one legal counsel and, to the extent necessary, one local counsel in each relevant jurisdiction for the Administrative Agent and the Lenders, collectively, in each case selected by the Administrative Agent) incurred by the Administrative Agent in negotiating, documenting and consummating this Amendment, the other documents referred to herein, and the transactions contemplated hereby and thereby.

(n) THIS AMENDMENT SHALL BE GOVERNED BY AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH AND BE GOVERNED BY THE LAW (WITHOUT GIVING EFFECT TO THE CONFLICT OF LAW PRINCIPLES THEREOF THAT WOULD RESULT IN THE APPLICATION OF ANY LAW OTHER THAN THE LAW OF THE STATE OF NEW YORK) OF THE STATE OF NEW YORK.

(o) THIS AMENDMENT CONSTITUTES THE ENTIRE CONTRACT AMONG THE PARTIES HERETO RELATING TO THE SUBJECT MATTER HEREOF AND SUPERSEDES ANY AND ALL PREVIOUS DISCUSSIONS, CORRESPONDENCE, AGREEMENTS AND OTHER UNDERSTANDINGS, WHETHER ORAL OR WRITTEN, RELATING TO THE SUBJECT MATTER HEREOF.

(p) Each of the Borrower, Holdings and the Subsidiary Loan Parties agrees to take all further actions and execute such other documents and instruments as the Administrative Agent may from time to time reasonably request to carry out the transactions contemplated by this Amendment, the Loan Documents and all other agreements executed and delivered in connection herewith.

THE LOAN PARTIES DO NOT INTEND THIS AMENDMENT NOR THE TRANSACTIONS CONTEMPLATED HEREBY TO BE, AND THIS AMENDMENT AND THE TRANSACTION CONTEMPLATED HEREBY SHALL NOT BE CONSTRUED TO BE, A NOVATION OF ANY OF THE OBLIGATIONS OWING BY ANY LOAN PARTY UNDER OR IN CONNECTION WITH THE CREDIT AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS TO WHICH A LOAN PARTY IS A PARTY.

[Signature Page Follows]

IN WITNESS WHEREOF, the Borrower, Holdings, the Subsidiary Loan Parties, the Lenders and the Administrative Agent have caused this Third Amendment to Credit Agreement and Waiver to be duly executed by their respective duly authorized officers and representatives as of the day and year first above written.

INTERACTIVE HOLDING CORP.

By: /s/ Yacov Kaufman
Name: Yacov Kaufman
Title: Director

By: /s/ Josef Mandelbaum
Name: Josef Mandelbaum
Title: Director

INCREDITONE INC.

By: /s/ Yacov Kaufman
Name: Yacov Kaufman
Title: Chief Financial Officer

By: /s/ Josef Mandelbaum
Name: Josef Mandelbaum
Title: Chief Executive Officer

[Signature Page to Third Amendment tCredit Agreement and Limited Waiver]

INTERCEPT INTERACTIVE INC.

By: /s/ Michael Waxman-Lenz

Name: Michael Waxman-Lenz

Title: Chief Financial Officer

UUU HOLDING, LLC

By: /s/ Michael Waxman-Lenz

Name: Michael Waxman-Lenz

Title: Chief Financial Officer

SPARK FLOW LLC

By: /s/ Michael Waxman-Lenz

Name: Michael Waxman-Lenz

Title: Chief Financial Officer

JAMBO MEDIA LLC

By: /s/ Michael Waxman-Lenz

Name: Michael Waxman-Lenz

Title: Chief Financial Officer

WORLD WEB NETWORK HOLDING COMPANY, LLC

By: /s/ Michael Waxman-Lenz

Name: Michael Waxman-Lenz

Title: Chief Financial Officer

[Signature Page to Third Amendment to Credit Agreement and Limited Waiver]

SUNTRUST BANK, in its capacities as a Lender and as Administrative Agent

By: /s/ Kevin Curtis

Name: Kevin Curtis

Title: Director

[Signature Page to Third Amendment to Credit Agreement and Limited Waiver]

SILICON VALLEY BANK, as a Lender

By: /s/ Michael Moretti

Name: Michael Moretti

Title: MD

[Signature Page to Third Amendment to Credit Agreement and Limited Waiver]

CADENCE BANK, as a Lender

By: /s/ Steve Prichett

Name: Steve Prichett

Title: EVP

[End of Signatures]

[Signature Page to Third Amendment to Credit Agreement and Limited Waiver]

1. IncrediMail Inc., a Delaware corporation
2. ClientConnect Ltd., an Israeli company
3. Interactive Holding Corp., a Delaware corporation
4. IncrediTone Inc., a Delaware corporation

CERTIFICATIONS

I, Yacov Kaufman, certify that:

1. I have reviewed this annual report on Form 20-F of Perion Network Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: March 7, 2017

/s/ Yacov Kaufman,
Interim Chief Executive Officer

CERTIFICATIONS

I, Yacov Kaufman, certify that:

1. I have reviewed this annual report on Form 20-F of Perion Network Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: March 7, 2017

/s/ Yacov Kaufman

Yacov Kaufman

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, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Yacov Kaufman, Interim Chief Executive Officer of the Issuer, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

1. The Report containing the financial statements fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. Information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Issuer.

/s/ Yacov Kaufman
Yacov Kaufman
Interim Chief Executive Officer

Date: March 7, 2017

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, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Yacov Kaufman, Chief Financial Officer of the Issuer, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

1. The Report containing the financial statements fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. Information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Issuer.

/s/ Yacov Kaufman
Yacov Kaufman
Chief Financial Officer

Date: March 7, 2017

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements on Form F-3 (Registration Nos. 333-208785 and 333-195794) and Form S-8 (Registration Nos. 333-208278, 333-203641, 333-193145, 333-192376, 333-188714, 333-171781, 333-152010 and 333-133968), of our reports dated March 7, 2017, with respect to the consolidated financial statements of Perion Network Ltd. and its subsidiaries, which appear in this Annual Report on Form 20-F for the year ended December 31, 2016.

Tel Aviv, Israel
March 7, 2017

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