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

**FORM 6-K**  
**Report of Foreign Private Issuer**

**Pursuant to Rule 13a-16 or 15d-16  
under the Securities Exchange Act of 1934**

For the month of September 2014 (Report No. 5)

Commission File Number: 000-51694

**Perion Network Ltd.**

(Translation of registrant's name into English)

1 Azrieli Center, Building A, 4th Floor  
26 HaRokmim Street, Holon, Israel 5885849  
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F ☒ Form 40-F ☐

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): N/A

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): N/A

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## Contents

This Report on Form 6-K of the registrant consists of the following documents, which are attached hereto, and incorporated by reference herein and into the registrant's Registration Statements on Form F-3 (Registration No. 333-195794) and Form S-8 (Registration Nos. 333-193145, 333-192376, 333-188714, 333-171781, 333-152010 and 333-133968).

Exhibit 99.1: Unaudited Interim Consolidated Financial Statements as of June 30, 2014.

Exhibit 99.2: Operating Results and Financial Review for the six months ended June 30, 2014.

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### Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Perion Network Ltd.

By: /s/ Limor Gershoni Levy

Name: Limor Gershoni Levy

Title: Corporate Secretary &

General Counsel

Date: September 30, 2014

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## **Exhibit Index**

Exhibit 99.1: Unaudited Interim Consolidated Financial Statements as of June 30, 2014.

Exhibit 99.2: Operating Results and Financial Review for the six months ended June 30, 2014.

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PERION NETWORK LTD. AND ITS SUBSIDIARIES  
INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
AS OF JUNE 30, 2014  
IN U.S. DOLLARS  
UNAUDITED  
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## CONSOLIDATED BALANCE SHEETS

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

	December 31	June 30
	2013	2014
	Audited	Unaudited
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	949	35,551
Restricted cash	-	1,540
Accounts receivable (net of allowances for doubtful accounts and sales reserves in a total amount of \$236 in 2014)	-	42,096
Prepays and other current assets	400	13,759
<b>Total current assets</b>	1,349	92,946
Property and equipment, net	2,189	5,488
Other intangible assets, net	-	40,929
Goodwill	27,520	146,400
Other assets	-	4,043
<b>Total assets</b>	31,058	289,806
<b>Liabilities and shareholders' equity</b>		
<b>Current liabilities:</b>		
Accounts payable (includes \$12,823 payable to Perion Network Ltd. at December 31, 2013)	13,358	24,641
Accrued Expenses and other liabilities	1,423	19,121
Short term debt	-	2,300
Deferred revenues	6,250	7,748
Payment obligation related to acquisition	-	6,680
<b>Total current liabilities</b>	21,031	60,490
Long-term debt	-	3,100
Other long term liabilities	-	4,518
<b>Total liabilities</b>	21,031	68,108
<b>Commitments and Contingencies</b>		
<b>Shareholders' equity:</b>		
Ordinary shares of NIS 0.01 par value - Authorized: 120,000,000 shares at December 31, 2013 and June 30, 2014; Issued and outstanding: 54,753,582 and 68,450,726 shares at December 31, 2013 and June 30, 2014, respectively	147	187
Additional paid-in capital	9,880	189,946
Accumulated other comprehensive income	-	62
Retained earnings	-	31,503
<b>Total shareholders' equity</b>	10,027	221,698
<b>Total liabilities and shareholders' equity</b>	31,058	289,806

## INTERIM CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

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

	Six Months Ended June 30	
	2013	2014
<b>Revenues:</b>		
Search	137,263	189,346
Advertising and other	23,187	35,012
<b>Total revenues</b>	<b>160,450</b>	<b>224,358</b>
<b>Costs and Expenses:</b>		
Cost of revenues	2,954	12,963
Customer acquisition costs	81,975	115,542
Research and development	10,243	23,959
Selling and marketing	4,948	10,509
General and administrative	6,053	19,955
<b>Total costs and expenses</b>	<b>106,173</b>	<b>182,928</b>
<b>Income from operations</b>	<b>54,277</b>	<b>41,430</b>
Financial income (expense), net	1,412	(867)
<b>Income before taxes on income</b>	<b>55,689</b>	<b>40,563</b>
Taxes on income	8,751	9,060
<b>Net income from continuing operations</b>	<b>46,938</b>	<b>31,503</b>
Net loss from discontinued operations	(14,901)	-
<b>Net income</b>	<b>32,037</b>	<b>31,503</b>
<b>Net earnings per share - Basic:</b>		
Continuing operations	\$ 0.87	\$ 0.47
Discontinued operations	\$ (0.28)	-
<b>Net earnings per share – Diluted:</b>		
Continuing operations	\$ 0.86	\$ 0.46
Discontinued operations	\$ (0.28)	-
<b>Number of shares – Basic:</b>		
Continuing and discontinued operations	53,906,484	67,325,808
<b>Number of shares – Diluted:</b>		
Continuing operations	54,705,799	69,040,368
Discontinued operations	53,906,484	-

## INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

U.S. dollars in thousands

	Six Months Ended June 30	
	2013	2014
<b>Net income</b>	32,037	31,503
Other comprehensive income:		
Unrealized gain on cash flow hedges, net	-	62
<b>Comprehensive income</b>	<u>32,037</u>	<u>31,565</u>



## INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

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

	Common stock		Preferred stock		Additional paid-in capital	Accum. other comprehensive income	Retained earnings	Total shareholders' equity
	Number of Shares	\$	Number of Shares	\$	\$	\$	\$	\$
<b>Balance as of December 31, 2012 (audited)</b>	37,303,298	\$ 100	16,602,292	44	21,828	-	222,049	244,021
Conversion of preferred shares into ordinary shares	16,602,292	\$ 44	(16,602,292)	(44)	-	-	-	-
Stock-based compensation	-	-	-	-	13,220	-	-	13,220
Exercise of stock options	847,992	\$ 3	-	-	847	-	-	850
Net income for the year	-	-	-	-	-	-	28,613	28,613
Dividend paid upon consummation of the spin-off	-	-	-	-	-	-	(65,009)	(65,009)
Dividend in-kind upon consummation of the spin-off	-	-	-	-	(26,015)	-	(185,653)	(211,668)
<b>Balance as of December 31, 2013 (audited)</b>	<b>54,753,582</b>	<b>\$ 147</b>	<b>-</b>	<b>-</b>	<b>9,880</b>	<b>-</b>	<b>-</b>	<b>10,027</b>
Acquisition of Perion Network Ltd.	12,524,000	\$ 36	-	-	165,759	-	-	165,795
Acquisition related expenses paid by the shareholders	-	-	-	-	3,060	-	-	3,060
Additional contribution by shareholders	-	-	-	-	1,803	-	-	1,803
Stock-based compensation	-	-	-	-	8,309	-	-	8,309
Exercise of stock options	1,173,144	\$ 4	-	-	1,135	-	-	1,139
Net change in other comprehensive income	-	-	-	-	-	62	-	62
Net income for the period	-	-	-	-	-	-	31,503	31,503
<b>Balance as of June 30, 2014 (unaudited)</b>	<b><u>68,450,726</u></b>	<b><u>\$ 187</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>189,946</u></b>	<b><u>62</u></b>	<b><u>31,503</u></b>	<b><u>221,698</u></b>

## INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

U.S. dollars in thousands

	Six Months Ended June 30	
	2013	2014
<b>Operating activities:</b>		
Net income	32,037	31,503
Loss from discontinued operations, net	(14,901)	-
Income from continuing operations	46,938	31,503
Adjustments required to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,010	10,193
Stock based compensation expense, net	3,124	8,309
Acquisition related expenses paid by shareholders	-	3,060
Change in fair value of payment obligation related to acquisition	-	452
Accrued interest, net	1,046	11
Deferred taxes, net	(29)	(2,369)
Accrued severance pay, net	13	89
Net changes in operating assets and liabilities:		
Accounts receivable	22,098	(36,254)
Other receivables and prepaid expenses	1,131	(4,150)
Other long-term assets	-	(660)
Accounts payable	(5,378)	10,206
Deferred revenues	(3,125)	1,003
Accrued expenses and other liabilities	(2,018)	517
Net cash provided by continuing operating activities	64,810	21,910
Net cash used in discontinued operations	(11,795)	-
Net cash provided by operating activities	53,015	21,910
<b>Investing activities:</b>		
Purchases of property and equipment	(440)	(3,113)
Purchases of property and equipment on behalf of landlord	-	(4,515)
Restricted cash, net	-	(1,073)
Proceeds from short-term bank deposits	95,108	-
Cash acquired through acquisition of Perion Network Ltd.	-	23,364
Net cash provided by continuing investing activities	94,668	14,663
Net cash provided by discontinued investing activities	256	-
Net cash used in investing activities	94,924	14,663
<b>Financing activities:</b>		
Exercise of stock options	10	1,139
Contribution by shareholders	-	585
Deferred payment made in connection with acquisition consummated in 2013	-	(2,545)
Repayment of long-term loans	-	(1,150)
Net cash provided by (used in) financing activities	10	(1,971)
Net increase in cash and cash equivalents	147,949	34,602
Net cash provided by discontinued activities	1,741	-
Cash and cash equivalents at beginning of year	78,395	949
<b>Cash and cash equivalents at end of period</b>	<b>228,085</b>	<b>35,551</b>

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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**U.S. dollars in thousands (except share and per share data)****NOTE 1: GENERAL**

Perion Network Ltd. ("Perion") and its wholly-owned subsidiaries (collectively referred to as the "Company"), is a global performance-based media and Internet company, providing online publishers and app developers advanced technology and a variety of intelligent, data-driven solutions to monetize their application or content and expand their reach to larger audiences. The Company generates revenues primarily through online search, advertising and the sale of premium products and services.

On January 2, 2014 the Company completed the acquisition of ClientConnect Ltd. (see Note 5) and on July 15, 2014 the Company completed the acquisition of Grow Mobile Inc. (see Note 12).

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES****a. Interim Financial Statements**

The accompanying unaudited interim financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial information. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the Company's consolidated financial position and changes in shareholders' equity as of June 30, 2014, as well as consolidated results of operations and consolidated cash flows for the six months ended June 30, 2014 and 2013, have been included.

Commencing in 2014, the acquisition of ClientConnect Ltd. ("ClientConnect") is reflected in the Company's financial statements as a reverse acquisition of all of Perion's outstanding shares and options by ClientConnect, in accordance with Accounting Standards Codification Topic 805, "Business Combinations" ("ASC 805"). Under the rules of ASC 805, ClientConnect is considered as the acquirer and the Company is viewed as the acquiree and therefore, the comparative amounts as included in these financial statements, namely, consolidated balance sheet and changes in shareholders' equity as of December 31, 2013, and the related consolidated statements of income, comprehensive income and cash flows for the six months ended June 30, 2013, represent ClientConnect's amounts and results for those periods.

The balance sheet at December 31, 2013 has been derived from the audited consolidated financial statements of ClientConnect. The accompanying unaudited interim financial statements should be read in conjunction with ClientConnect's audited consolidated financial statements and accompanying notes for the year ended December 31, 2013 included in the Current Report on Form 6-K of the Company furnished with the SEC on April 18, 2014. For equity and legal matters the accompanying unaudited interim financial statements should be read in conjunction with the Company's Annual Report on Form 20-F filed with the Securities and Exchange Commission (the "SEC") on April 10, 2014 as amended by Form 20F/A filed with the SEC on July 29, 2014.

Results for the six months ended June 30, 2014, are not necessarily indicative of the results that may be expected for the year ending on December 31, 2014.

**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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**U.S. dollars in thousands (except share and per share data)****NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****b. Use of estimates**

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported results of operations during the reporting periods. Actual results could differ from those estimates.

**c. Impact of recently issued accounting standards not yet adopted**

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 605)", 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. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is not permitted. The Company is currently in the process of evaluating the impact of the adoption of ASU 2014-09 on its consolidated financial statements.

**Note 3: FAIR VALUE MEASUREMENTS**

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

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

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

**Note 3: FAIR VALUE MEASUREMENTS (CONT'D)**

In determining fair value, the Company uses various valuation approaches. ASC 820 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the observability of inputs as follows:

- **Level 1** - Valuations based on quoted prices in active markets for identical assets that the Company has the ability to access.
- **Level 2** - Valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.
- **Level 3** - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The following table present assets and liabilities measured at fair value on a recurring basis as of June 30, 2014:

	June 30, 2014			
	Fair value measurements using input type			
	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Derivative assets	-	110	-	110
<b>Total financial assets</b>	-	110	-	110
<b>Liabilities:</b>				
Payment obligation in connection with previous acquisitions:	-	-	5,146	5,146
<b>Total financial liabilities</b>	-	-	5,146	5,146

As of December 31, 2013, there were no balances presented at fair value.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 4: Earnings per Share

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

	Six Months Ended June 30,	
	2013	2014
<b>Numerator:</b>		
Net income attributable to ordinary shares (basic and diluted):		
Net income from continuing operations	\$ 46,938	\$ 31,503
Net loss from discontinued operations	\$ (14,901)	-
<b>Denominator:</b>		
Weighted average number of ordinary shares outstanding during the period	53,906,484	67,325,808
Dilutive shares related to stock options and restricted stock units	799,315	1,714,560
Diluted number of ordinary shares outstanding	<u>54,705,799</u>	<u>69,040,368</u>
Basic net earnings per ordinary share		
Continuing operations	\$ 0.87	\$ 0.47
Discontinued operations	\$ (0.28)	-
Diluted net earnings per ordinary share		
Continuing operations	\$ 0.86	\$ 0.46
Discontinued operations	\$ (0.28)	-
Ordinary shares equivalents excluded because their effect would have been anti-dilutive	<u>1,294,120</u>	<u>2,621,487</u>

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 5: ACQUISITIONS

## a. ClientConnect Ltd.

On September 16, 2013, the Company announced an agreement (the "Agreement") to combine the ClientConnect business of Conduit Ltd. with Perion in an all-stock transaction. On December 31, 2013 Conduit spun off its ClientConnect business, which includes its monetization and distribution platform for publishers and developers. On January 2, 2014 (the "Closing Date") Perion issued 54,753,582 shares and 2,815,026 stock options to ClientConnect's former shareholders and optionholders. Upon closing, the Company was owned 81% by the pre-closing ClientConnect shareholders and option holders and 19% by the pre-closing Perion shareholders and option holders, on a fully diluted basis as defined in the Agreement. During the six months period ended June 30, 2014, the Company incurred \$3,161 expenses in connection with the acquisition, which are included in the general and administrative expense.

In connection with the spin off from Conduit, it was agreed between Conduit and ClientConnect that the working capital transferred to ClientConnect will be zero, except for the balance of Conduit with Perion (see Note 9b).

The transaction has been accounted for as an acquisition of Perion by ClientConnect in accordance with ASC 805, "Business Combinations," ("ASC 805"), using the acquisition method of accounting with ClientConnect as the accounting acquirer. Under these accounting standards, the total purchase price has been calculated as follows:

Number of shares of Perion ordinary shares outstanding on January 2, 2014	12,524,000
Closing price per share of Perion's ordinary shares on January 2, 2014 (Closing Date)	\$ 12.64
Total fair value of stock consideration	\$ 158,303
Fair value of vested Perion options (for accounting purposes only)	\$ 7,492
Total purchase price	\$ 165,795

The fair value of Perion's vested options represent the fair value of such options attributable to service periods prior to the Closing Date, using the stock price at the Closing Date as an input to the Binomial option-pricing model to determine the fair value of the options.

Under the acquisition method of accounting, the total purchase price is allocated to the net tangible and intangible assets of Perion acquired in the acquisition, based on their fair values at the Closing Date. The estimated fair values are preliminary and based on the information that was available as of the Closing Date. The Company believes that the information provides a reasonable basis for estimating the fair values, but is waiting for additional information necessary to finalize these amounts, particularly with respect to the estimated fair value of intangible assets. Thus the preliminary measurements of fair value reflected are subject to changes and such changes could be significant. The Company expects to finalize the valuation and complete the purchase price allocation as soon as practicable, but no later than one year from the Closing Date.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 5: ACQUISITIONS (CONT'D)

## a. ClientConnect Ltd. (cont'd)

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

	\$	Estimated Useful Life
Amortizable intangible assets:		
Acquired technology	28,390	3-5 years
In process research and development	8,100	*
Tradename and other	13,440	4-11 years
Net tangible assets assumed	4,576	
Deferred tax liabilities	(7,591)	
	<u>46,915</u>	
Net assets acquired	46,915	
Goodwill	118,880	
	<u>165,795</u>	
Total fair value considerations	<u>165,795</u>	

\* Will be determined upon completion of the development

The following unaudited condensed combined pro forma information for the period ended June 30, 2013, gives effect to the acquisition of ClientConnect as if the acquisition had occurred on January 1, 2013. The pro forma information is not necessarily indicative of the results of operations, which actually would have occurred if the acquisition had been consummated on that date, nor does it purport to represent the results of operations for future periods. For the purposes of the pro forma information, the Company has assumed that net income includes additional amortization of intangible assets related to the acquisition of \$3,780, net of related tax effects.

	Six Months Ended June 30, 2013 <u>Unaudited</u>
Revenues	212,455
Net income from continuing operations	46,889
Net loss from discontinued operations	(14,901)
Net income from continuing operations per ordinary share:	
Basic	\$ 0.71
Diluted	\$ 0.70
Net income from discontinued operations per ordinary share:	
Basic	\$ (0.22)
Diluted	\$ (0.22)



## NOTES TO INTERIM 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 carrying amount of goodwill for the period ended June 30, 2014 is as follows:

	\$
Balance as of January 1, 2014	27,520
Changes during the period	118,880
Balance as of June 30, 2014	146,400

## b. Other intangible assets, net

		\$
<b>Cost:</b>		
Acquired technology	3 – 5 years	28,390
In process research and development	4 years *	8,100
Tradename and other	4 – 11 years	13,440
		49,930
<b>Accumulated amortization:</b>		
Acquired technology		7,399
In process research and development		219
Tradename and other		1,383
		9,001
<b>Balance as of June 30, 2014, net</b>		<b>40,929</b>

\* During 2014, upon completion of the development of one of the projects, the Company evaluated the useful life of such project at 4 years.

c. During the six months ended June 30, 2014, the Company recorded \$9,001 of amortization expense of intangible assets.

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

<b>Year ending December 31</b>	<b>\$</b>
2014 (six months ending December 31)	9,001
2015	16,102
2016	8,497
2017	3,440
2018	856
Thereafter	3,033
	40,929

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 7: SHAREHOLDERS' EQUITY

## a. Ordinary shares

The ordinary shares of the Company entitle their holders to voting rights, the right to receive cash dividend and the right to a share in excess assets upon liquidation of the Company. On 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 NIS 0.01 each.

## b. Stock Options and Restricted Stock Units

The Company's Equity Incentive Plan (including the U.S. Addendum) (the "Plan") was initially adopted in 2003. The Plan had an initial term of ten years from adoption.

On December 9, 2012, the Company's Board of Directors extended the term of the Plan for an additional ten years. In addition, on August 7, 2013, the Company's Board of Directors approved amendments to the Plan, which include the ability to grant Restricted Stock Units ("RSUs") and restricted stock.

The contractual term of the stock options and RSUs is generally no more than five years and the vesting period of the options and RSUs granted under the Plan is generally 3 years from the date of grant. The rights of the ordinary shares obtained from the exercise of stock options or RSUs are identical to those of the other ordinary shares of the Company.

As of June 30, 2014, 5,649,229 stock options and RSUs remained available for future equity awards.

The following table summarizes the activities for the Company's stock options for the six months ended June 30, 2014:

		Weighted average		
	Number of options	Exercise price	Remaining contractual term (in Years)	Aggregate intrinsic value
Outstanding at January 1, 2014	2,815,963	\$ 3.29	4.72	\$ 24,754
Perion acquisition	1,652,552	\$ 7.00		
Granted	1,395,000	\$ 11.63		
Exercised	(1,173,144)	\$ 1.06		
Cancelled	(22,142)	\$ 5.03		
Forfeited	(979,483)	\$ 2.32		
Outstanding at June 30, 2014	3,688,746	\$ 9.08	3.47	\$ 6,451
Exercisable at June 30, 2014	1,145,333	\$ 6.45	2.66	\$ 4,207

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 7: SHAREHOLDERS' EQUITY (CONT'D)

## b. Stock Options and Restricted Stock Units (cont'd)

The following table summarizes the activities for the Company's RSUs for the six months ended June 30, 2014:

	<u>Number of RSUs</u>	<u>Weighted average fair value</u>
Outstanding at January 1, 2014		
Perion acquisition	200,000	\$ 10.85
Granted	1,261,400	\$ 12.64
Cancelled	(18,950)	\$ 12.64
Outstanding at June 30, 2014	<u>1,442,450</u>	<u>\$ 12.39</u>

- c. In connection with the termination of one of the Company's officers, 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 remasured the award as of the termination date. Total incremental expense incurred in connection with the acceleration amounted to \$4,800.

## NOTE 8: MAJOR CUSTOMER

The following table sets forth the customers that represented 10% or more of the Company's total revenues in each of the periods set forth below:

	<u>Six Months Ended June 30</u>	
	<u>2013</u>	<u>2014</u>
Customer A	56%	70%
Customer B	30%	*

\* less than 10%

The following is a summary of customers that accounted for at least 10% of the total accounts receivable as of December 31, 2013 and June 30, 2014:

	<u>December 31</u>	<u>June 30</u>
	<u>2013</u>	<u>2014</u>
Customer A	-	59%
Customer B	-	10%

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 9: RELATED PARTY TRANSACTIONS

- a. 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. During the six months ended June 30, 2014, ClientConnect received \$1,294 of services from Conduit, and provided \$341 of services to Conduit. In September 2014, following the Company's moving of its offices to Holon, the above mentioned services are no longer being provided
- b. In connection with a commercial agreement signed between Perion and Conduit in August 2013, as described in note 2(i) of Perion's 2013 consolidated financial statements included on Form 20-F filed with the SEC on April 10, 2014 (as amended by Form 20F/A filed with the SEC on July 29, 2014), the balance of accounts payable as of December 31, 2013, includes an amount of \$12,823 payable to Perion.

## NOTE 10: COMMITMENTS AND CONTINGENCIES

- a. Office lease commitments

In January 2014, the Company entered into a lease agreement for new offices in Holon, Israel. The lease expires in 2024, with an option by the Company to extend for two additional periods of 24 months each. On September 1, 2014, the Company moved all of its Israeli personnel to Holon.

Aggregate minimum lease commitments under the aforesaid non-cancelable operating lease for the Holon offices as of June 30, 2014 are as follows:

	<u>\$</u>
2014 (six months ending December 31)	411
2015	1,975
2016	1,991
2017	2,023
Thereafter	<u>13,982</u>
	<u>20,382</u>

- b. Car lease commitments

The Company leases motor vehicles for employees under operating lease agreements. Non-cancelable lease payment commitments under operating leases for motor vehicles, as of June 30, 2014, amounted to \$121. Subsequent to the balance sheet date, the Company entered into additional car lease agreements through the end 2017, with future non-cancelable commitments amounting to approximately \$200.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

**NOTE 10: COMMITMENTS AND CONTINGENCIES (CONT'D)**

## c. Contingent purchase obligation

On November 30, 2012, the Company completed the acquisition of 100% of the shares of Sweet IM Ltd. ("SweetIM"). 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 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 on account of the Contingent Payment. Following such payment, on June 22, 2014, SweetIM's shareholders' representative has delivered to the Company a notice in which they claim that the Company owes SweetIM's shareholders the entire Contingent Payment. The parties are currently in negotiations to identify a party who will arbitrate this matter.

## d. Legal Matters

On November 10, 2013, the Company was served with a lawsuit filed in the Tel Aviv District Court (Economic Department) against the Company and its directors by an individual claiming to be a holder of 150 Perion's ordinary shares. The plaintiff alleges certain flaws in the process, price and disclosure in connection with the ClientConnect acquisition. The plaintiff requested that the court certify the lawsuit as a valid class action, a declaratory judgment confirming the plaintiff's allegations and certain remuneration for the purported plaintiff, including legal fees. The Company believes that the complaint is without merit and plans to defend against it vigorously.

**NOTE 11: INCOME TAXES**

Taxable income of Israeli companies is subject to corporate tax rates of 25% in 2013 and 26.5% in 2014 and onwards. Israeli companies are entitled to Tax benefits under the Israeli Law for the Encouragement of Capital Investments, 1959 (the "Law"). Commencing 2011, Perion and its Israeli subsidiaries elected to apply the new Preferred Enterprise benefits under the Law which include reduced tax rates of 12.5% in 2013 and 16% in 2014 and onward. Non-Israeli subsidiaries are taxed according to the tax laws in their respective countries of residence.

In the six months period ending June 30, 2014 compared to the same period in 2013, the effective tax rate increased due to the increases of the regular Israeli corporate tax rate as well as the tax rates under the Law.

**NOTE 12: SUBSEQUENT EVENTS**

a. On July 15, 2014, the Company completed the acquisition of Grow Mobile, Inc., a Delaware corporation ("Grow Mobile"). Grow Mobile provides an innovative platform for mobile advertising that enables developers to buy, track, optimize, and scale user acquisition campaigns from a single dashboard. The initial purchase price was \$15.2 million (net of a \$1.8 million adjustment which resulted from the negative working capital on Grow Mobile's balance sheet at closing), of which \$8.2 million in cash and \$7 million in equity to be paid according to payment schedule as per the merger agreement with Grow Mobile. The total purchase price may reach up to \$42 million, through an earn-out component that allows for an additional \$25 million in cash and equity to be paid during the 24 months after the closing, contingent upon achieving certain revenue and profit milestones.

b. On September 23, 2014, the Company concluded a public offering in Israel of its Series L Convertible Bonds (the "Bonds"). The Company issued Bonds with an aggregate par value of approximately 143,500 Israeli Shekel ("ILS") which equals approximately \$39,200. 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. The principal of the Bonds will be repaid in five equal annual installments commencing on March 31, 2016. The Bonds are convertible, at the election of each holder, into the Company's ordinary shares at a conversion price of ILS 33.605 per share (equal to approximately \$9.19 on September 23, 2014). The net proceeds of the offering amounted to approximately ILS 136,500 (approximately \$37,300). For a summary of the terms of the Bonds, please read the Company's Report on Form 6-K filed with the SEC on September 23, 2014.

**OPERATING RESULTS AND FINANCIAL REVIEW  
IN CONNECTION WITH THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED JUNE 30, 2014**

**OPERATING RESULTS**

The following discussion and analysis should be read in conjunction with our interim consolidated financial statements as of and for the six months ended June 30, 2014, appearing elsewhere in this Report on Form 6-K, our audited consolidated financial statements and other financial information for the year ended December 31, 2013 appearing in our Annual Report on Form 20-F for the year ended December 31, 2013 and Item 5—"Operating and Financial Review and Prospects" of that Annual Report, and the audited consolidated financial statements of ClientConnect and its subsidiaries for the year ended December 31, 2013 appearing in our Report on Form 6-K furnished with the Securities and Exchange Commission (the "SEC") on April 18, 2014.

**Forward-Looking Statements**

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

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

You should read this 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 our Report on Form 6-K furnished with the SEC on September 23, 2014, as well as those discussed in our other filings with the SEC. 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.

## **Overview**

In January 2014, following the acquisition of ClientConnect, we launched our CodeFuel solution. CodeFuel is a leading self-service platform with simple integration and robust, built-in analytics that empower digital businesses to optimize distribution and maximize revenue. With the launch of our CodeFuel solution, we have evolved into a global media and Internet company that powers innovation. We now focus on providing online publishers and app developers advanced technology and a variety of intelligent data-driven solutions to monetize their applications or content and expand their outreach to larger audiences. Consequently, we have refocused our marketing strategy on increasing developer and advertiser awareness of our CodeFuel solution.

Our legacy applications are designed to enhance our users' online experience in a variety of ways. Our headquarters and research and development facilities are located in Israel, and we have other offices located in the United States.

## ***Recent Acquisitions***

On January 2, 2014 we completed the acquisition of Client Connect in an all-stock transaction. The transaction has been accounted for as an acquisition of Perion by ClientConnect in accordance with Accounting Standards Codification Topic 805, "Business Combinations," using the acquisition method of accounting with ClientConnect as the accounting acquirer. (See further discussion in our Annual Report on Form 20-F for the year ended December 31, 2013.)

On July 15, 2014, we completed the acquisition of all the outstanding shares of Grow Mobile, Inc., a Delaware corporation headquartered in San Francisco ("Grow Mobile"). Grow Mobile provides an innovative platform for mobile advertising that enables developers to buy, track, optimize and scale user acquisition campaigns from a single dashboard.

The initial purchase price was \$17 million, of which \$8.2 million was in cash (including an adjustment based on the working capital on the closing date) and \$7 million was in equity, subject to vesting according to a schedule set forth in the agreement. The total purchase price may reach up to \$42 million, through an earn-out component that allows for an additional \$25 million in cash and equity to be paid during the 24 months after the closing, contingent upon achieving certain revenue and profit milestones.

## ***Critical Accounting Policies***

The preparation of our consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions in certain circumstances that affect the amounts reported in the accompanying consolidated financial statements and related footnotes. Actual results may differ from these estimates. To facilitate the understanding of our business activities, certain accounting policies that are important to the presentation of our financial condition and results of operations and that require management's subjective judgments are described in the audited consolidated financial statements of ClientConnect and its subsidiaries for the year ended December 31, 2013 appearing in the Report on Form 6-K of the Company furnished with the SEC on April 18, 2014. We base our judgments on our experience and various assumptions that we believe to be reasonable under the circumstances. The most significant estimates that we make on an ongoing basis relate to valuation of intangible assets. Please refer to the above-mentioned consolidated financial statements for a summary of all significant accounting policies.

See the notes to the interim consolidated financial statements included in this report.

*Legal Proceedings*

We are subject to various litigation and other legal proceedings. For a discussion of these matters, see “Contingencies” included in note 10 to the interim consolidated financial statements included in this report.

**Six Months Ended June 30, 2014 Compared with Six Months Ended June 30, 2013**

In accordance with accepted accounting principles, the acquisition of ClientConnect by Perion, which closed on January 2, 2014, is accounted for as a reverse acquisition. Therefore the comparative amounts in the following tables for the six months ended June 30, 2013 represent ClientConnect’s results for such period. As a result, a significant portion of the year-over-year growth described below is attributable to the acquisition of Perion by ClientConnect since Perion’s results are not included in the 2013 results discussed below.

**Revenues**

The following table shows our revenues by category (in thousands of U.S. dollars):

	<b>Six months ended June 30</b>	
	<b>2013</b>	<b>2014</b>
Search	\$ 137,263	\$ 189,346
Advertising and Other	23,187	35,012
<b>Total revenues</b>	<b>\$ 160,450</b>	<b>\$ 224,358</b>

Total revenues increased by 40%, from \$160.5 million in the first half of 2013 to \$224.4 million in the first half of 2014. This increase was a result of increases in each of our revenue streams, as discussed below:

*Search revenues.* Search revenues increased by 38%, from \$137.3 million in the first half of 2013 to \$189.3 million in the first half of 2014. This increase was due to an increase in the number of downloads and subsequently the number of users using our search service. This increase was primarily due to the acquisition of Perion’s activity and its search generated revenues, as well as organic growths. In the first half of 2013, Perion’s search revenues were \$38.4 million.



*Advertising and other revenues.* Product and other revenues increased by 51%, from \$23.2 million in the first half of 2013 to \$35.0 million in the first half of 2014. This increase is attributable to increased distribution of display advertising in conjunction with software of our partners and offering of our homepage, which includes display advertising, and the subsequent acceptance of this offer by our users. In this revenue stream as well, the increase was primarily due to the acquisition of Perion's activity and its advertising revenues. In the first half of 2013, Perion's product and other revenues were \$13.6 million.

## Costs and Expenses

The following table shows our costs and expenses by category (in thousands of U.S. dollars):

	Six Months Ended June 30	
	2013	2014
Cost of revenues	\$ 2,954	\$ 12,963
Customer acquisition costs	81,975	115,542
Research and development	10,243	23,959
Selling and marketing	4,948	10,509
General and administrative	6,053	19,955
Total costs and expenses	\$ 106,173	\$ 182,928

## Cost of revenues

Cost of revenues in the first half of 2013 was \$3.0 million, compared to \$13.0 million in the respective period in 2014. The increase is primarily attributable to amortization of intangible assets of \$7.6 million due to the acquisition of Perion, as well as the cost of revenues recorded by Perion in its legacy business in the first half of 2014, and not included in the 2013 period. In the first half of 2013, Perion's cost of revenues were \$6.1 million.

## Customer Acquisition Costs

Customer acquisition costs ("CAC") consists of amounts paid to software development and distribution partners primarily based on fixed fee arrangements. CAC amounted to \$82.0 million in the first half of 2013, compared to \$115.5 million in the first half of 2014, representing an increase of 41%. The increase reflects primarily the fact that the 2013 period does not include Perion's activity. In the first half of 2013, Perion's CAC expenses were \$23.9 million. In addition, as part of our strategy to accelerate growth, we increased customer acquisition costs, both nominally and as a percentage of sales. With this investment, we aim to increase the number of product downloads, users, search queries generated by those downloading our software or that of our partners, and subsequently, revenue from search, premium subscriptions and advertising.

## **Research and Development Expenses**

Research and development ("R&D") expenses, consists 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 R&D expenses increased by 134%, from \$10.2 million in the first six months of 2013 to \$24.0 million in corresponding period in 2014. The increase reflects primarily the fact that the 2013 period does not include Perion's activity. In the first half of 2013, Perion's R&D expenses were \$6.3 million. In addition, R&D expenses increased as a result of adding personnel in connection with our continued investment to enrich our product pipeline.

## **Selling and Marketing Expenses**

Selling and marketing ("S&M") expenses include primarily salaries and other personnel-related expenses for employees primarily engaged in marketing activities, allocated facilities costs, as well as other outsourced marketing activity. S&M expenses increased by 112%, from \$5.0 million in the first six months of 2013 to \$10.5 million in the first six months of 2014. The increase reflects primarily the fact that the 2013 period does not include Perion's activity. In the first half of 2013, Perion's S&M expenses were \$5.3 million.

## **General and Administrative Expenses**

General and administrative ("G&A") 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 increased by 230%, from \$6.1 million in the first six months of 2013 to \$20.0 million in the first six months of 2014. The increase reflects primarily the fact that the 2013 period does not include Perion's activity. In the first half of 2013, Perion's G&A expenses were \$4.3 million. In addition, G&A expenses in the first half of 2014 included \$3.4 million in acquisition-related expenses and a \$3.5 million increase in share-based compensation expenses.

## **Income Tax Expense**

Income tax expenses increased by 4%, from \$8.8 million in the first half of 2013 to \$9.1 million in the first half of 2014. The effective income tax rate increased from 15.7% to 22.3%, primarily due to an increase of tax rates under the Israeli Law for Encouragement of Capital Investments, 1959, from 12.5% in 2013 to 16% in 2014 and onward, and as a result of significant increase in expenses that are not deductible for tax purposes in the first half of 2014, particularly \$3.4 million of acquisition-related costs and \$3.5 million in share-based compensation.

## **LIQUIDITY AND CAPITAL RESOURCES**

We finance our operations primarily from our cash and cash equivalents and cash from operations.

As of June 30, 2014, we had \$35.6 million in cash and cash equivalents, compared to \$0.9 million at December 31, 2013. This increase was mainly the result of the cash and cash equivalents acquired through the acquisition of Perion. Under the terms of the ClientConnect split from Conduit, most of the cash balances as of December 31, 2013 remained with Conduit.

### *Cash Flows from Operating Activities*

Our operating activities provided cash in the amount of \$21.9 million in the six months ended June 30, 2014, primarily due to net profit of \$31.5 million, increased by non-cash depreciation and amortization in the amount \$10.2 million, non-cash stock-based compensation expenses of \$8.3 million, offset by an increase in accounts receivables in the amount of \$36.3 million, increase in other receivables in the amount of \$4.2 million and increase in accounts payable in the amount of \$10.2 million. Under the terms of the ClientConnect split from Conduit,, ClientConnect had no working capital upon the consummation of the split on December 31, 2013.

### *Cash Flows from Investing Activities*

In the six months ended June 30, 2014, our investing activities provided cash in the amount of \$14.7 million, primarily due to the cash acquired through the acquisition of Perion in the amount of \$23.4 million, partially offset primarily by purchase of equipment in the amount of \$7.6 million in connection with our move to new headquarters and an increase in restricted cash of \$1.1 million.

### *Cash Flows from Financing Activities*

In the six months ended June 30, 2014, our financing activities used cash in the amount of \$2.0 million, primarily due to the \$2.5 million of payment made in connection of a prior acquisition and repayment of loan in the amount of \$1.1 million, partially offset primarily by proceeds from the issuance of shares upon exercise of stock options in the amount of \$1.1 million.

### *Recent Bond Financing*

On September 23, 2014, we concluded a public offering in Israel of our Series L Convertible Bonds (the "Bonds"). We issued Bonds with an aggregate par value of approximately 143.5 million Israeli Shekels ("ILS") (approximately \$39.2 million). The Bonds were issued at a purchase price equal to 96.5% of their par value. The Bonds bear interest at the rate of 5% per year, payable semi-annually. The principal of the Bonds will be repayable in five equal annual installments commencing on March 31, 2016, with a final maturity date of March 31, 2020. The Bonds are convertible, at the election of each holder, into our ordinary shares at a conversion price of ILS 33.605 per share (equal to approximately \$9.19 on September 23, 2014). The net proceeds of the offering amounted to approximately ILS 136.5 million (approximately \$37.3 million). For a summary of the terms of the Bonds, please read our Report on Form 6-K furnished with the SEC on September 23, 2014.

### *Financing Needs*

We believe that our current working capital and cash flow from operations are sufficient to meet our operating cash requirements for at least the next twelve months, including payments required under our existing bank loans. An important part of our growth and diversification strategy is to pursue acquisition opportunities. If we do not have available sufficient cash to finance additional acquisitions, we may be required to obtain additional debt or equity financing. We cannot be certain that we will be able to obtain, if required, additional financing on acceptable terms or at all.