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 April 2015 (Report No. 2)

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

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: Consolidated Financial Statements for the Year Ended December 31, 2014.

Exhibit 99.2: Operating Results and Financial Review in Connection with the Consolidated Financial Statements for the Year Ended December 31, 2014.

Exhibit 99.3: Consent of Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global, Independent Auditors.

Exhibit 101: Attached as Exhibit 101 to this Report are the following Interactive Data Files, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets at December 31, 2013 and 2014; (ii) Consolidated Statements of Income for the years ended December 31, 2012, 2013 and 2014; (iii) Consolidated Statements of Comprehensive Income for the years ended December 31, 2012, 2013 and 2014; (iv) Statements of Changes in Shareholders' Equity for the years ended December 31, 2012, 2013 and 2014; (v) Consolidated Statements of Cash Flows for the years ended December 31, 2012, 2013 and 2014; and (vi) Notes to the Consolidated Financial Statements. (*)

(*) 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

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: April 6, 2015

Exhibit Index

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Exhibit 99.1

PERION NETWORK LTD. AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2014

IN U.S. DOLLARS

INDEX

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

TO THE SHAREHOLDERS AND BOARD OF DIRECTORS OF

PERION NETWORK LTD.

We have audited the accompanying consolidated balance sheets of Perion Network Ltd. ("the Company") and its subsidiaries as of December 31, 2013 and 2014, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2013 and 2014, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

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

Tel-Aviv, Israel
April 6, 2015

CONSOLIDATED BALANCE SHEETS

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

	December 31, 2013	December 31, 2014
Assets		
Current Assets:		
Cash and cash equivalents	$ 949	$ 101,183
Restricted cash	-	696
Short-term bank deposits	-	15,000
Accounts receivable (net of allowance of $1,035 in 2014)	-	30,808
Prepaid expenses and other current assets	400	11,468
Total Current Assets	**1,349**	**159,155**
Property and equipment, net	2,189	12,180
Intangible assets, net	-	16,890
Goodwill	27,520	164,092
Other assets	-	3,822
Total Assets	**$ 31,058**	**$ 356,139**
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable (includes $12,823 payable to Perion Network Ltd. at December 31, 2013)	$ 13,358	$ 21,173
Accrued expenses and other liabilities	1,423	26,241
Current maturities of long-term debt	-	2,300
Deferred revenues	6,250	7,323
Payment obligation related to acquisitions	-	8,587
Total Current Liabilities	**21,031**	**65,624**
Long-Term Liabilities:		
Convertible debt	-	35,752
Payment obligation related to acquisitions	-	5,058
Other long-term liabilities	-	3,708
Total Liabilities	**21,031**	**110,142**
Commitments and Contingencies		
Shareholders' Equity:		
Ordinary shares of ILS 0.01 par value - Authorized: 120,000,000 shares; Issued: 55,099,601 and 69,548,450 shares at December 31, 2013 and 2014, respectively; Outstanding: 54,753,582 and 69,202,431 shares at December 31, 2013 and 2014, respectively	147	189
Additional paid-in capital	10,882	203,984
Treasury shares at cost (346,019 shares at December 31, 2013 and 2014)	(1,002)	(1,002)
Retained earnings	-	42,826
Total Shareholders' Equity	**10,027**	**245,997**
Total Liabilities and Shareholders' Equity	**$ 31,058**	**$ 356,139**

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		
	2012	**2013**	**2014**
Revenues:			
Search	$ 517,060	$ 277,275	$ 330,757
Advertising and other	19,948	48,233	57,974
Total Revenues	**537,008**	**325,508**	**388,731**
Costs and Expenses:			
Cost of revenues	5,513	6,104	27,817
Customer acquisition costs	119,555	185,355	174,575
Research and development	16,858	22,394	44,129
Selling and marketing	7,920	10,298	25,388
General and administrative	4,705	19,115	37,605
Impairment and restructuring charges	-	-	23,922
Total Costs and Expenses	**154,551**	**243,266**	**333,436**
Income from Operations	**382,457**	**82,242**	**55,295**
Financial income (expense), net	7,696	2,782	(2,888)
Income before Taxes on Income	**390,153**	**85,024**	**52,407**
Taxes on income	75,435	22,616	9,581
Net Income from Continuing Operations	**314,718**	**62,408**	**42,826**
Net loss from discontinued operations	(23,798)	(33,795)	-
Net Income	**$ 290,920**	**$ 28,613**	**$ 42,826**
Net Earnings (Loss) per Share - Basic:			
Continuing operations	$ 6.02	$ 1.16	$ 0.63
Discontinued operations	$ (0.45)	$ (0.63)	$ -
Net income	**$ 5.57**	**$ 0.53**	**$ 0.63**
Net Earnings (Loss) per Share – Diluted:			
Continuing operations	$ 5.91	$ 1.14	$ 0.58
Discontinued operations	$ (0.45)	$ (0.62)	$ -
Net income	**$ 5.46**	**$ 0.52**	**$ 0.58**
Weighted average number of shares – Basic:			
Continuing operations	52,320,133	53,910,741	68,213,209
Discontinued operations	52,320,133	53,910,741	-
Weighted average number of shares – Diluted:			
Continuing operations	53,264,743	54,837,307	70,327,411
Discontinued operations	53,264,743	54,837,307	-

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		
	2012	**2013**	**2014**
Net income	**$ 290,920**	**$ 28,613**	**$ 42,826**
Realized gain from cash flow hedges	-	-	62
Unrealized gain from cash-flow hedges	-	-	(62)
Comprehensive Income	**$ 290,920**	**$ 28,613**	**$ 42,826**

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		Preferred stock		Additional paid-in capital	Retained earnings	Treasury shares	Total shareholders' equity
	Number of Shares	$	Number of Shares	$	$	$	$	$
Balance as of December 31, 2011	**35,518,638**	**95**	**16,602,292**	**44**	**16,902**	**269,805**	**(1,002)**	**285,844**
Dividend declared and paid	-	-	-	-	-	(338,676)	-	(338,676)
Stock-based compensation	-	-	-	-	2,860	-	-	2,860
Exercise of stock options	1,784,660	5	-	-	3,068	-	-	3,073
Net income	-	-	-	-	-	290,920	-	290,920
Balance as of December 31, 2012	**37,303,298**	**100**	**16,602,292**	**44**	**22,830**	**222,049**	**(1,002)**	**244,021**
Conversion of preferred shares into ordinary shares	16,602,292	44	(16,602,292)	(44)	-	-	-	-
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)
Stock-based compensation	-	-	-	-	13,220	-	-	13,220
Exercise of stock options	847,992	3	-	-	847	-	-	850
Net income	-	-	-	-	-	28,613	-	28,613
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**

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		
	2012	**2013**	**2014**
Operating activities:			
Net income	$ 290,920	$ 28,613	$ 42,826
Loss from discontinued operations, net	(23,798)	(33,795)	-
Income from continuing operations	**314,718**	**62,408**	**42,826**
Adjustments required to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,871	2,110	21,413
Impairment of intangible assets	-	-	19,941
Restructuring costs related to impairment of property and equipment	-	-	632
Stock-based compensation expense	1,633	10,405	15,145
Acquisition related expenses paid by shareholders	-	-	3,060
Accrued interest, net	(1,307)	1,170	655
Deferred taxes, net	102	-	(13,851)
Accrued severance pay, net	(1)	24	392
Change in payment obligation related to acquisition	-	-	1,780
Fair value revaluation - convertible debt	-	-	(2,566)
Loss from sale of property and equipment	-	-	121
Net changes in operating assets and liabilities:			
Accounts receivable, net	(7,714)	18,032	(23,568)
Prepaid expenses and other current assets	1,996	(2,533)	(4,463)
Other assets	-	-	(557)
Accounts payable	10,408	8,681	2,228
Accrued expenses and other liabilities	13,004	(8,756)	9,741
Deferred revenues	(6,250)	(6,250)	(887)
Net cash provided by continuing operating activities	328,460	85,291	72,042
Net cash used in discontinued operating activities	(19,024)	(23,939)	-
Net cash provided by operating activities	**$ 309,436**	**$ 61,352**	**$ 72,042**
Investing activities:			
Purchases of property and equipment	$ (1,721)	$ (1,916)	$ (10,882)
Proceeds from sale of property and equipment	-	-	58
Restricted cash, net	-	-	(202)
Proceeds from (investments in) short-term deposits, net	62,932	(75,957)	(15,000)
Cash paid for the acquisition of Grow Mobile LLC, net of cash acquired	-	-	(4,322)
Cash acquired through the acquisition of Perion Network Ltd.	-	-	23,364
Net cash provided by (used in) continuing investing activities	61,211	(77,873)	(6,984)
Net cash provided by (used in) discontinued investing activities	(2,321)	898	-
Net cash provided by (used in) investing activities	**$ 58,890**	**$ (76,975)**	**$ (6,984)**
Financing activities:			
Dividend paid to shareholders	$ (338,676)	$ -	$ -
Dividend paid upon consummation of spin-off	-	(65,009)	-
Exercise of stock options	3,073	850	1,584
Contribution by shareholders	-	-	585
Payments made in connection with acquisition	-	-	(2,545)
Proceeds from the issuance of convertible debt	-	-	37,852
Repayment of long-term loans	-	-	(2,300)
Net cash provided by (used in) continuing financing activities	**$ (335,603)**	**$ (64,159)**	**$ 35,176**
Net increase (decrease) in cash and cash equivalents	**$ 32,723**	**$ (79,782)**	**$ 100,234**
Decrease in cash and cash equivalents - discontinued activities	4,433	2,336	-
Cash and cash equivalents at beginning of year	41,239	78,395	949
Cash and cash equivalents at end of year	**$ 78,395**	**$ 949**	**$ 101,183**

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		
	2012	**2013**	**2014**
Supplemental Disclosure of Cash Flow Activities:			
Cash paid during the year for:			
Income taxes	$ 55,696	$ 40,694	$ 20,855
Interest paid	$ -	$ -	$ 260
Purchase of property and equipment on credit	$ -	$ -	$ 1,205
Non-cash financing activities			
Issuance of shares in connection with acquisitions	$ -	$ -	$ 171,552
Contribution by shareholders	$ -	$ -	$ 1,218
Acquisition related expenses paid by shareholders	$ -	$ -	$ 3,060
Dividend in kind upon consummation of spin-off	$ -	$ 211,668	$ -

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

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

NOTE 1: GENERAL

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

On January 2, 2014 the Company completed the acquisition of ClientConnect Ltd. and on July 15, 2014 the Company completed the acquisition of Grow Mobile LLC (see Note 3). Subsequent to the balance sheet date, on February 10, 2015, the Company completed the acquisition of Make Me Reach SAS (see Note 18).

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

a. Basis of consolidation

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

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 (“ASC”) 805, "Business Combinations". Under 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 as of December 31, 2013, and the related consolidated statements of income, comprehensive income, changes in shareholders’ equity and cash flows for the years ended December 31, 2012 and 2013, represent ClientConnect’s amounts and results for those periods.

b. 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, fair values and useful lives of intangible assets, fair values of stock-based awards, 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.

c. Financial statements in U.S. dollars

The reporting currency of the Company is the U.S. dollar (“USD”). Most of the Company’s revenue is generated in USD. In addition, a substantial portion of the Company’s costs are incurred in USD. The Company's management believes that the USD is the currency of the primary economic environment in which the Company operates. Thus, the Company’s functional currency 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 statement of income as financial income or expenses, as appropriate.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

d. 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, 2014 are mainly in USD and bear interest at an average annual rate of 0.49%.

e. Restricted cash

Restricted cash as of December 31, 2014, is comprised primarily of security deposits that are held to secure the Company's hedging activity and lease obligations.

f. Property and equipment

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

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

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

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

Property and equipment and intangible assets subject to amortization are reviewed for impairment in accordance with ASC 360, "Accounting for the Impairment or Disposal of Long-Lived Assets", whenever events or changes in circumstances indicate that the carrying 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.

For the year ended December 31, 2014, the Company recorded impairment charges of $19,941 with respect to intangible assets subject to amortization (see Note 5). In addition, in connection with the restructuring plan (see Note 14), the Company recorded an impairment of $632 related to its property equipment.

In 2013, the Company recorded impairment charges of $2,177 with respect to intangible assets, presented in discontinued operations.

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

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

h. Goodwill and other intangible assets

Goodwill reflects the excess of the purchase price of business acquired over the fair value of net assets acquired. Goodwill is not amortized but instead is tested for impairment at least annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Starting 2014, the Company operates in two operating segments, the search-based monetization for the desktop and mobile advertising. For the year ended December 31, 2014, the search-based monetization operating segment constitutes of 99% of the consolidated revenues, 92% of the consolidated assets and 100% of the consolidated net income. Each of the operating segments consists of one reporting unit.

In accordance with ASC 350 the Company performs an annual impairment test at December 31 each year. The first step, identifying a potential impairment, compares the fair value of the reporting unit with its carrying amount. If the carrying amount exceeds its fair value, the second step would need to be performed; otherwise, no further step is required. The second step, measuring the impairment loss, compares the implied fair value of the goodwill with the carrying amount of the goodwill. Any excess of the carrying amount over the applied fair value is recognized as an impairment loss, and the carrying value of goodwill is written down to fair value. During the years ended December 31, 2012, 2013 and 2014, no such impairment losses were recorded.

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

Intangible assets that are not considered to have an indefinite useful life are amortized over their estimated useful lives. The 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.

i. Revenue recognition

The Company generates revenues from two major sources:

Search Revenues - the Company obtains the majority of its 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 generates a portion of its revenues from users' clicks on text-based links to advertisers' websites, or sponsored links. Ads are incorporated into the download and installation process of the app developers software or through browser extension that offer recommendations, deals, coupons and relevant content to users as they browse online.

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

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

i. Revenue recognition (cont'd)

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 customer payment less amounts the Company pays to suppliers. 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 selects its suppliers. The evaluation of these factors is subject to significant judgment and subjectivity. Generally, when the Company is primarily obligated in a transaction, is subject to risk, 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.

j. 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 and advertising revenues is immaterial.

k. Customer acquisition costs

Customer acquisition costs consist of amounts paid to publishers and app developers who distribute the Company's applications and other products. These amounts are primarily based on fixed fee and revenue share arrangements, and are charged as incurred.

l. Research and development costs

Research and development costs are charged to the statement of income as incurred.

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

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

m. 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. The Company provides a valuation allowance, if necessary, to reduce deferred tax assets to their estimated realizable value.

Deferred tax liabilities and assets are classified as current or noncurrent based on the classification of the related asset or liability for financial reporting or, if not related to an asset or liability for financial reporting, according to the expected reversal dates of the specific temporary differences.

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.

n. Severance pay

Most 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 shall be instead of its severance liability. Upon contribution based on the full amount of the employee's monthly salary, and release of the policy to the employee, no additional severance payments shall 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 employees once the deposit amounts have been paid.

The Company's liability for severance pay to 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 or labor agreements.

Severance expenses from continuing operations for the years ended December 31, 2012, 2013 and 2014 amounted to $678, $1,296 and $3,330, respectively. Severance expenses from discontinued operations for the years ended December 31, 2012 and 2013 amounted to $1,008 and $1,080, 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 sheet, respectively.

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

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

o. 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 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, 2012, 2013 and 2014 were $25, $61 and $116, respectively.

p. Comprehensive income

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

q. 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.

r. Concentrations of credit risk

Financial instruments that 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. Allowance for doubtful accounts amounted to $0 and $1,035 as of December 31, 2013 and 2014, respectively.

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

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

s. 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.

Prior to 2014 and the acquisition of Perion, ClientConnect used the Black-Scholes-Merton option pricing model to determine the fair value of its stock-based awards. Following Perion's acquisition on January 2, 2014, the Company estimates the fair value of its new stock-based awards using the Binomial option-pricing model. The change from the Black-Scholes-Merton to the Binomial option-pricing model is considered a change in accounting estimate and its impact on the estimated fair value of the Company's stock-based awards is minimal.

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		
	2012	**2013**	**2014**
Risk-free interest rate	0.90% – 1.33%	0.93% - 1.91%	0.10% - 1.72%
Expected volatility	50%	50%	44.44% - 51.62%
Expected term (years)	6.25	6.25	-
Early exercise factor	-	-	100% - 256%
Forfeiture rate post vesting	-	-	0% - 15%
Dividend yield	0%	0%	0%

The stock-based awards prior to 2014 were granted under Conduit Ltd. ("Conduit"), the previous owner of the ClientConnect business, which was not a publicly traded company and therefore, the expected volatility of grants in those periods was calculated based on certain peer companies that Conduit considered to be comparable. Starting in 2014, the expected volatility is calculated based on the actual historical stock price movements of the Company's stock.

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

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

s. Stock-based compensation (cont'd)

The expected option term represents the period that the Company's stock options are expected to be outstanding. Prior to 2014, the expected option term for share-option awards which were at the money when granted has been determined by Conduit based on the simplified method in accordance with Staff Accounting Bulletin No. 110, as adequate historical experience was not available to provide a reasonable estimate. For share-option awards which were in the money when granted, Conduit used an expected term which it believed to be appropriate under these circumstances. Such estimate was not materially different than determining the expected term based on a lattice model and then use it as an input to the Black-Scholes-Merton option pricing model.

Starting in 2014, 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 at the date of grant.

t. Derivative instruments

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

In 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 8). 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.

These 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". As of December 31, 2014, the Company had derivative assets and liabilities of $1,349 and $1,779 , respectively, representing the fair value of outstanding swap and cylinder contracts. 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. Net gains from hedging transactions recognized in financial expenses, net, during 2014, was $125 . No such gains or losses were recorded in the years 2012 and 2013.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

t. Derivative instruments (cont'd)

The notional value of the Company's derivative instruments as of December 31, 2014, amounted to $43,520. 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, but are used in the calculation of settlements under the contracts.

u. 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 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.

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

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

u. Fair value of financial instruments (cont'd)

The following table present assets and liabilities measured at fair value on a recurring basis as of December 31, 2014:

	December 31, 2014			
	Fair value measurements using input type			
	Level 1	Level 2	Level 3	Total
Assets:				
Derivative assets	$ -	$ 1,349	$ -	$ 1,349
Total financial assets	**$ -**	**$ 1,349**	**$ -**	**$ 1,349**
Liabilities:				
Payment obligation in connection with acquisitions	$ -	$ -	$ 13,645	$ 13,645
Derivative liabilities	-	1,779	-	1,779
Long-term convertible debt	35,752	-	-	35,752
Total financial liabilities	**$ 35,752**	**$ 1,779**	**$ 13,645**	**$ 51,176**

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

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, 2014:

	$
Total fair value as of January 1, 2014	-
Fair value of payment obligation in connection with SweetIM acquisition	7,239
Settlements	(3,018)
Additions due to Grow Mobile acquisition	7,410
Changes in fair value recognized in earnings	1,067
Changes in fair value recognized in earnings with respect to the employees of Grow Mobile	947
Total fair value as of December 31, 2014	**13,645**

v. 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.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

w. 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 and any subsequent changes in estimated contingencies are to be recorded in earnings. In addition, changes in valuation allowance related to acquired deferred tax assets and in acquired income tax position are to be recognized in earnings.

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

x. 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; that is, 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.

Accordingly, the statements of income and statements of cash flow related to certain business initiatives at ClientConnect prior to Perion's acquisition are classified as discontinued operations for the years ended December 31, 2012 and 2013.

y. Impact of recently issued accounting standard 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.

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

NOTE 3: 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 2,815,963 stock options to ClientConnect’s former shareholders and option holders. 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. In 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 15).

The transaction has been accounted for as an acquisition of Perion by ClientConnect in accordance with ASC 805, using the acquisition method of accounting with ClientConnect as the accounting acquirer (see Note 2 a). Under these accounting standards, the total purchase price has been calculated as follows:

Number of shares of Perion ordinary shares outstanding on the Closing Date		12,524,000
Closing price per share of Perion’s ordinary shares on the 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 represents 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.

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

NOTE 3: ACQUISITIONS (CONT'D)

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

	$
Cash and restricted cash	25,582
Accounts receivable	18,665
Prepaid expenses and other assets	4,593
Property and equipment	1,376
Accounts payable	(13,900)
Accrued expenses and other liabilities	(25,623)
Deferred revenues	(495)
Deferred tax liability, net	(6,663)
Long term debt	(6,550)
Intangible assets	49,930
Goodwill	118,880
Total purchase price	**165,795**

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

	$	Estimated useful life
Acquired technology	28,390	3-5 years
In-process research and development	8,100	*
Tradename and other	13,440	4-11 years
Total amount allocated to intangible assets	**49,930**	

* In 2014, the Company completed the development of $6,100 and estimated the useful life at 4 years. For the remaining $2,000 the useful life will be determined upon completion of the development.

In performing the purchase price allocation, the Company considered, among other factors, an analysis of historical financial performance and estimates of future performance of Perion's revenues assuming best use of the acquired assets. The fair value of intangible assets was based on market participant approach to valuation, performed by a third party valuation firm using estimates and assumptions provided by management.

NOTE 3: ACQUISITIONS (CONT'D)

The following condensed combined pro forma information for the period ended December 31, 2013, gives effect to the acquisition of Perion 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 $5,140, net of related tax effects.

	Year Ended December 31, 2013 Unaudited
Revenues	$ 412,656
Net income from continuing operations	$ 68,995
Net loss from discontinued operations	$ (33,795)
Net income from continuing operations per ordinary share:	
Basic	$ 1.04
Diluted	$ 1.00
Net loss from discontinued operations per ordinary share:	
Basic	$ (0.51)
Diluted	$ (0.49)

b. Grow Mobile LLC

On July 15, 2014 ("Closing Date"), the Company completed the acquisition of 100% of the shares of Grow Mobile LLC, 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.

For the acquisition of Grow Mobile, the Company paid a total consideration of $17,000 in cash and in shares, and the sellers will be entitled for an additional milestones-based contingent consideration of up to $25,000 in cash and in shares. The total consideration was composed as follows:

- $10,000 in cash, reduced by $1,788 for working capital adjustments and by $1,320 to be paid to the employees under the Merger Consideration Incentive Plan (see below);
- $7,000 in Perion's ordinary shares issued at the Closing Date, reduced by $1,100 to be issued to the employees under the Merger Consideration Incentive Plan (see below), valued at $5,545, which considered the market restrictions on these shares;
- Up to $7,000 milestones-based contingent consideration ("First Contingent Payment") payable in July 2015. In connection with this contingent payment consideration, the Company recorded at the Closing Date an estimated liability of $2,740 ($2,968 at December 31, 2014);
- Up to $18,000 milestones-based contingent consideration ("Second Contingent Payment") payable in June 2016. In connection with this contingent payment consideration, the Company recorded at the Closing Date an estimated liability of $ 4,670 ($5,058 at December 31, 2014).

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

NOTE 3: ACQUISITIONS (CONT'D)

The following table shows a summary of the purchase price at the Closing Date:

	$
Cash	6,892
Share consideration	5,545
Contingent consideration	7,410
Total purchase price at the Closing Date	**19,847**

Additionally, as part of the acquisition, the Company established an incentive plan for the benefit of the holders of unvested options and restricted shares of Grow Mobile ("Merger Consideration Incentive Plan"). The unvested options and restricted shares were cancelled upon Closing Date and converted into the right to receive an allocable portion of the consideration subject to ratable vesting, for the remainder of their preexisting vesting schedules. The allocable consideration will be withheld subject to continued vesting. In connection with the Merger Consideration Incentive Plan following the acquisition, the First and Second Contingent Payment, the Company recorded $947 as operating expenses in 2014. As of December 31, 2014 an amount of $474 is recorded as payment obligation in the current liabilities.

The Company also incurred acquisition related costs in a total amount of $940, which are included in general and administrative expenses for the year ended December 31, 2014. Acquisition related costs include legal, due diligence fees and other costs directly related to the acquisition.

Under business combination accounting, the total purchase price was allocated to Grow Mobile's net tangible and intangible assets based on their estimated fair values as set forth below:

	$
Cash	2,767
Accounts receivable	1,398
Prepaid expenses and other assets	249
Property and equipment	13
Accounts payable	(3,307)
Accrued expenses and other liabilities	(820)
Deferred revenues	(1,465)
Deferred tax liability	(2,320)
Intangible assets	5,640
Goodwill	17,692
Total purchase price	**19,847**

NOTE 3: ACQUISITIONS (CONT'D)

In performing the purchase price allocation, the Company considered, among other factors, an analysis of historical financial performance, highest and best use of the acquired assets and estimates of future performance of Grow Mobile's products. The fair value of intangible assets was based on market participant approach to valuation, performed by a third party valuation firm using estimates and assumptions provided by management.

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

	$	Estimated useful life
Acquired technology	4,025	4 years
Customer relationships	1,615	5 years
Total amount allocated to intangible assets	**5,640**	

Pro forma results of operations for the acquisition of Grow Mobile have not been presented because it is not material to the consolidated results of operations.

c. Sweet IM Ltd.

In November 2012, the Company completed the acquisition of 100% of the shares of Sweet IM Ltd. ("SweetIM"), an Israeli-based consumer internet company that develops a variety of applications. In 2014, the Company paid $1,534 of dividend to SweetIM's previous shareholders. Such dividend payment was the last portion of a dividend that was declared prior to the acquisition but was not distributed prior to the closing date.

In addition, the Company maintains a $5,000 liability on its balance sheet as of December 31, 2014, in connection with a contingent purchase obligation to SweetIM's shareholders (see Note 9 b).

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

NOTE 4: PROPERTY AND EQUIPMENT, NET

	December 31,	
	2013	2014
Cost:		
Computers and peripheral equipment	$ 8,123	$ 11,596
Office furniture and equipment	100	2,397
Leasehold improvements	118	5,937
Total cost	8,341	19,930
Less: accumulated depreciation	6,152	7,750
Property and equipment, net	**$ 2,189**	**$ 12,180**

Depreciation expenses from continued operations totaled $1,871, $2,110 and $2,674, for the years ended December 31, 2012, 2013 and 2014, respectively. Depreciation expenses from discontinued operations totaled $379 and $460, for the years 2012 and 2013, respectively.

In connection with the restructuring plan in November 2014 (see Note 14), the Company impaired leasehold improvements in the amount of $632 relating to office space that will no longer be in use. Such impairment is included in impairment and restructuring charges in the statement of income.

NOTE 5: GOODWILL AND OTHER INTANGIBLE ASSETS, NET

a. Goodwill

The changes in the carrying amount of goodwill in 2014 are as follows:

	$
Balance as of January 1, 2014	**27,520**
Acquisition of Perion	118,880
Acquisition of Grow Mobile	17,692
Balance as of December 31, 2014	**164,092**

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

NOTE 5: GOODWILL AND OTHER INTANGIBLE ASSETS, NET (CONT'D)

b. Other intangible assets, net

		December 31, 2014			
	Estimated Useful Life	Gross carrying amount	Accumulated amortization	Impairment	Net carrying amount
Cost:					
Acquired technology	3 – 5 years	$ 38,515	$ (15,698)	$ (14,347)	$ 8,470
In-process R&D		2,000	-	(2,000)	-
Tradename and other	4 – 11 years	15,055	(3,041)	(3,594)	8,420
		$ 55,570	**$ (18,739)**	**$ (19,941)**	**$ 16,890**

During 2014, the Company recorded $18,739 amortization expenses. As of December 31, 2013, there were no balances of intangible assets.

In December 2014, the Company performed an impairment review of several intangible assets that were recognized in connection with the acquisition of Perion, which resulted in impairments of $19,941 that are included in impairment and restructuring charges in the statement of income for the year ended December 31, 2014. The related deferred tax liability in the amount of $3,191 has also been written off and is included in taxes on income, as tax benefit, for the year ended December 31, 2014. Such impairments resulted primarily due to lower than anticipated sales and cash flow as well as managerial decisions to abandon certain R&D projects following the completion of ClientConnect's integration process.

In 2013, the Company recorded impairment charge of $2,177 with respect to intangible assets, presented in discontinued operations.

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

	$
2015	5,983
2016	3,877
2017	2,496
2018	1,421
2019	701
Thereafter	2,412
	16,890

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

NOTE 6: ACCRUED EXPENSES AND OTHER LIABILITIES

	December 31,	
	2013	2014
Employees and payroll accruals	$ 770	$ 7,438
Government authorities	156	8,719
Uncertain tax position liability (see note 12 g)	-	724
Deferred tax liabilities	289	-
Derivative liabilities	-	1,779
Accrued restructuring costs (see note 14)	-	2,257
Professional services accruals	-	2,149
Hosting, software and web services accruals	-	1,569
Other accruals	208	1,606
	$ 1,423	**$ 26,241**

NOTE 7: LONG TERM DEBT

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

The Agreements contain various provisions including a pledge of all the Company's assets under a floating charge, compliance with certain financial covenants, restrictive covenants, including negative pledges, and other commitments, typically contained in facility agreements of this type. On April 1, 2015, the Company entered into an amended financial covenants agreement with one of the Banks, effective December 31, 2014, relating to both, the long-term debt and the swap agreement in connection with the convertible debt (see Note 8). The Company was in compliance with all covenants as of December 31, 2014.

The loans are repaid in 16 and 20 equal quarterly installments, respectively, starting July 17, 2012, and bear annual interest rates of 4.35% and 4.64%.

The long term debt is included in other long-term liabilities on the balance sheet as of December 31, 2014.

As of December 31, 2014, the aggregate principal annual maturities according to the loan agreement are as follows:

	Repayment amount
	$
2015	2,300
2016	1,550
2017	400
	4,250

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

NOTE 8: CONVERTIBLE DEBT

In September 2014, the Company completed a public offering in Israel of its Series L Convertible Bonds (the "Bonds"). The Company issued Bonds with an aggregate par value of approximately ILS 143,500 thousands ($36,900 as of December 31, 2014). 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 proceeds of the offering, before issuance costs of $741, amounted to $37,852. The principal of the Bonds, denominated in ILS, will be repaid in five equal annual instalments commencing on March 31, 2016.

The Bonds are convertible, at the election of each holder, into the Company's ordinary shares at a conversion price of ILS 33.605 per share ($8.64 on December 31, 2014) 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, a 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, 2014, the fair value of the Bonds, based on its quoted price at the TASE and including accrued interest, was $35,752.

The changes of the long-term convertible debt in 2014 were as follows:

	$
Balance as of January 1, 2014	**-**
Issuance of convertible debt	37,852
Accrued interest	466
Change in fair value	(2,566)
Balance as of December 31, 2014	**35,752**

In order to mitigate the potential adverse impact of the fluctuations in the ILS-USD exchange rate, 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.

As of December 31, 2014, the Company satisfies all of the financial covenants associated with both, the Bonds and the Swap.

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

NOTE 8: CONVERTIBLE DEBT (CONT'D)

As of December 31, 2014, the aggregate principal annual payments of the bonds are as follows:

	Repayment amount
	$
2016	7,380
2017	7,380
2018	7,380
2019	7,380
2020	7,380
	36,900

NOTE 9: 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 choose an early termination in November 2019. On September 1, 2014, the Company moved all of its Israeli personnel to Holon.

Additionally, two of the Company's subsidiaries in the U.S., lease their offices in San-Francisco, CA and in Redmond, WA. The lease agreements expire in December 2019 and December 2015, respectively.

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, 2014 are as follows:

	$
2015	2,547
2016	2,117
2017	2,168
2018	2,179
Thereafter	11,457
	20,468

Expenses of lease facilities from continued operations in the years 2012, 2013 and 2014 were $746, $940 and $1,166 , respectively. Expenses for the car leases from continued operations in the years 2012, 2013 and 2014 were $480, $545 and $1,163 , respectively.

NOTE 9: COMMITMENTS AND CONTINGENT LIABILITIES (CONT'D)

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 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 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.

c. Legal Matters

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. On 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. The Company is unable to predict the outcome or range of possible loss at this stage, believes that it has strong defenses against this lawsuit and intends to defend against it vigorously. 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.

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. In October 2014, the Company filed an answer denying all the allegations and moving to dismiss the lawsuit. In December 2014, the Court ordered the dismissal of the case, without prejudice, at the request of the parties. Pursuant to a stipulation among the parties, the plaintiff agreed not to file another lawsuit relating to the transaction and the Company agreed not to seek the recovery of costs, fees or sanctions from the plaintiff or his attorneys in connection with the case. The Company did not pay any consideration in connection with the case or its dismissal.

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

NOTE 10: 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. Stock Options and Restricted Stock Units

The stock-based compensation included in the operating costs and expenses for the years prior to 2014, derives from equity awards that were granted under the option plans of Conduit, the previous owner of the ClientConnect business. In 2014, following the acquisition of ClientConnect on January 2, 2014 and the conversion of all outstanding equity awards of ClientConnect employees into stock options of Perion’s shares, the stock-based compensation expenses derive from both, equity awards that were granted under Conduit as well as equity awards that were granted under the Company’s Equity Incentive Plan (the "Plan").

Perion’s Plan was initially adopted in 2003 and 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 to 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 1 and 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 December 31, 2014, there were 5,892,110 ordinary shares reserved for future stock-based awards under the Plan.

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

NOTE 10: SHAREHOLDERS' EQUITY (CONT'D)

The following table summarizes the activities for the Company's stock options for the year ended December 31, 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	$ 24,772
Perion acquisition	1,652,552	$ 7.00		
Granted	1,639,000	$ 10.97		
Exercised	(1,274,929)	$ 1.39		$ 11,085
Cancelled	(1,493,174)	$ 5.02		
Outstanding at December 31, 2014	3,339,412	$ 8.85	2.93	$ 348
Exercisable at December 31, 2014	1,238,000	$ 6.89	2.26	$ 222
Vested and expected to vest at December 31, 2014	2,721,725	$ 8.50	2.92	$ 338

The weighted-average grant-date fair value of options granted during the years ended December 31, 2012, 2013 and 2014 was $4.04, $3.00 and $4.49, respectively.

The aggregate intrinsic value of the outstanding stock options at December 31, 2014, represents the intrinsic value of 479,448 outstanding options that are in-the-money as of such date. The remaining 2,859,964 outstanding options are out-of-the-money as of December 31, 2014, and their intrinsic value was considered as zero.

The number of options expected to vest reflect an estimated forfeiture rate.

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

NOTE 10: SHAREHOLDERS' EQUITY (CONT'D)

The following table summarizes additional information regarding outstanding and exercisable stock options under the Company's Stock Option Plan as of December 31, 2014:

	Outstanding			Exercisable		
Range of exercise price	Number of options	Weighted average remaining contractual term (years)	Weighted average exercise price	Number of options	Weighted average remaining contractual term (years)	Weighted average exercise price
$0.34-$2.00	103,051	3.99	$ 1.9	64,860	3.98	$ 1.85
$4.04-$6.93	929,945	2.27	$ 5.12	629,705	1.84	$ 5.18
$7.11-$9.93	541,789	2.60	$ 8.42	272,254	1.72	$ 8.03
$10.06-$11.94	1,626,502	3.29	$ 11.25	231,807	3.31	$ 10.63
$12.56-$13.54	138,125	3.62	$ 12.66	39,374	3.56	$ 12.66
	3,339,412	2.93	$ 8.85	1,238,000	2.26	$ 6.89

The following table summarizes the activities for the Company's RSUs for the year ended December 31, 2014:

	Number of RSUs	Weighted average grant date fair value
Unvested at January 1, 2014	-	
Perion acquisition	200,000	$ 12.64
Granted	1,361,400	$ 12.44
Vested	(49,820)	$ 12.64
Cancelled	(114,280)	$ 12.64
Unvested at December 31, 2014	1,397,300	$ 12.45
Expected to vest after December 31, 2014	1,014,028	$ 12.55

RSUs expected to vest after December 31, 2014 reflect an estimated forfeiture rate.

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

NOTE 10: SHAREHOLDERS' EQUITY (CONT'D)

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,		
	2012	2013	2014
Cost of revenues	$ -	$ -	$ 249
Research and development	1,130	1,077	2,435
Selling and marketing	320	690	2,944
General and administrative	183	8,638	9,297
Restructuring costs	-	-	220
Total	**$ 1,633**	**$ 10,405**	**$ 15,145**
Share-based compensation in discontinued operations	**$ 1,227**	**$ 2,815**	**$ -**

As of December 31, 2014, there was $12,985 of unrecognized compensation cost related to outstanding stock options and RSUs. This amount is expected to be recognized over a weighted-average period of 1.44 years. 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.

c. 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 is included in general and administrative expenses.

d. In connection with the restructuring in November 2014 (see Note 14), the Company accelerated 33,333 RSUs of one of its officers. Total incremental expense incurred in connection with the acceleration amounted to $220 and is included in impairment and restructuring charges.

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

NOTE 11: FINANCIAL INCOME (EXPENSE), NET

	Year ended December 31,		
	2012	2013	2014
Financial income:			
Interest on bank deposits	$ 5,526	$ 1,569	$ 45
Foreign currency translation gains, net	2,178	1,245	-
Change in fair value of convertible debt	-	-	2,566
Other	-	-	48
	$ 7,704	**$ 2,814**	**$ 2,659**
Financial expense:			
Foreign currency translation losses, net	$ -	$ -	$ (2,669)
Change in fair value of payment obligation related to acquisitions	-	-	(1,067)
Issuance costs of convertible debt	-	-	(741)
Interest expense on debts	-	-	(733)
Bank charges and other	(8)	(32)	(337)
	$ (8)	**$ (32)**	**$ (5,547)**
Financial income (expense), net	**$ 7,696**	**$ 2,782**	**$ (2,888)**

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

NOTE 12: INCOME TAXES

a. Income before taxes on income

Income before taxes on income is comprised as follows:

	Year ended December 31		
	2012	2013	2014
Domestic	$ 389,213	$ 83,388	$ 55,272
Foreign (U.S.)	940	1,636	(2,865)
Total	**$ 390,153**	**$ 85,024**	**$ 52,407**

b. Taxes on income

Taxes on income are comprised as follows:

	Year ended December 31		
	2012	2013	2014
Current taxes	$ 59,614	$ 10,778	$ 23,432
Deferred tax expence (benefit)	102	-	(13,851)
Taxes in respect of previous years *	15,719	11,838	-
Total	**$ 75,435**	**$ 22,616**	**$ 9,581**

* The years 2012 and 2013 include non-recurring tax expenses in respect of the release of Conduit's trapped earnings (see Note 12 f below).

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

NOTE 12: INCOME TAXES (CONT'D)

Taxes on income by jurisdiction were as follows:

	Year ended December 31		
	2012	**2013**	**2014**
Domestic	$ 75,333	$ 22,616	$ 11,716
Foreign	102	-	(2,135)
Total	**$ 75,435**	**$ 22,616**	**$ 9,581**
Domestic:			
Current taxes	$ 59,614	$ 10,778	$ 23,272
Deferred tax benefit	-	-	(11,556)
Taxes in respect of previous years	15,719	11,838	-
Total - Domestic	**$ 75,333**	**$ 22,616**	**$ 11,716**
Foreign:			
Current taxes	$ -	$ -	$ 160
Deferred tax expense (benefit)	102	-	(2,295)
Total - Foreign	**$ 102**	**$ -**	**$ (2,135)**
Total income tax expense	**$ 75,435**	**$ 22,616**	**$ 9,581**

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

NOTE 12: INCOME TAXES (CONT'D)

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,	
	2013	**2014**
Deferred tax assets:		
Net operating loss carry forwards	$ -	$ 5,699
Research and development	-	4,463
Accrued restructuring costs	-	373
Accrued employee benefits	-	862
Allowance for Doubtful Debts	-	166
Other	-	528
Deferred tax assets, before valuation allowance	-	**12,091**
Valuation allowance	-	3,985
Total deferred tax assets, net of valuation allowance	**$ -**	**$ 8,106**
Deferred tax liabilities:		
Intangible assets	$ -	$ (3,189)
Property and equipment, net	(289)	(331)
Total deferred tax liabilities	**$ (289)**	**$ (3,520)**
Total deferred tax asset (liability), net	**$ (289)**	**$ 4,586**
Domestic:		
Current deferred tax asset	$ -	$ 2,976
Non-current deferred tax asset	-	1,917
	$ -	**$ 4,893**
Foreign:		
Current deferred tax asset	$ -	$ 24
Current deferred tax liability	(289)	-
Long-term deferred tax liability	-	(331)
	$ (289)	**$ (307)**
Total deferred tax asset (liability), net	**$ (289)**	**$ 4,586**

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

Of the change in the total valuation allowance for the year ended December 31, 2014, $1,962 relates to the increase in deferred taxes on operating loss carry-forwards and temporary differences for which a full valuation allowance was recorded. The remaining change in the valuation allowance resulted from the business combination of Perion on January 2, 2014 (see to Note 3 a).

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

NOTE 12: INCOME TAXES (CONT'D)

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		
	2012	**2013**	**2014**
Income before taxes on income	**$ 390,153**	**$ 85,024**	**$ 52,407**
Statutory tax rate in Israel	25%	25%	26.5%
Theoretical tax expense	**$ 97,538**	**$ 21,256**	**$ 13,888**
Increase (decrease) in tax expenses resulting from:			
"Preferred Enterprise" benefits *	(39,280)	(10,495)	(10,644)
Non-deductible expenses	537	1,971	4,059
Taxes in respect to release of "trapped earnings"	15,719	11,838	-
Loss and timing differences for which no deferred taxes were recorded	-	-	1,962
Tax adjustment in respect of different tax rate of foreign subsidiaries	-	-	(461)
Other	921	(1,954)	777
Taxes on income	**$ 75,435**	**$ 22,616**	**$ 9,581**

* Benefit per ordinary share from "Preferred Enterprise" status:

Basic	$ 0.75	$ 0.19	$ 0.16
Diluted	$ 0.74	$ 0.19	$ 0.15

e. Income tax rates

Taxable income of Israeli companies is generally subject to corporate tax at the rate of 25% for the 2012 and 2013 tax years, and 26.5% for the 2014 tax year. The corporate tax rate is scheduled to remain at a rate of 26.5% for future tax years. However, the effective tax rate payable by a company that derives income from a Preferred Enterprise (as further discussed below) may be considerably lower.

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 dividend. The Company intends to reinvest these earnings indefinitely in the foreign subsidiaries. Accordingly, no deferred income taxes have been provided. If these earnings were distributed to Israel in the form of dividends or otherwise, the Company would be subject to additional Israeli income taxes (subject to an adjustment for foreign tax credits) and foreign withholding taxes.

The amount of undistributed earnings of foreign subsidiaries is immaterial.

NOTE 12: INCOME TAXES (CONT'D)

f. 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.

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 10% in 2012, 7% in 2013, 9% in 2014, and will be 9% in 2015 and onwards. In other regions the tax rate was 15% in 2012, 12.5% in 2013, 16% in 2014, and will be 16% in 2015 and onwards. 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.

On November 5, 2012, the Israeli parliament approved a final bill regarding repatriations of trapped earnings out of Approved/Privileged Enterprises. The temporary provisions became effective in December 2012, the date of its official publication. The Israeli government agreed to grant a relief of 30%-60% on the amount of tax which should have been paid on distributable earnings in order to encourage companies to pay the reduced taxes during the next 12 months (the "Temporary Order"). The Temporary Order provides partial relief from Israeli corporate income tax for companies which opt to enjoy the privilege, on a linear basis: greater release of "trapped" retained earnings will result in a higher relief from corporate income tax.

In December 2012, pursuant to the Temporary Order, Conduit "released" approximately $110,000 of its "trapped" earnings out of Beneficiary Enterprise and distributed $95,542 as part of the dividend paid in 2012. The additional corporate tax incurred by Conduit in 2012 as a result of such release amounted to $15,719. Additionally, 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". The additional corporate tax incurred by Conduit in 2013 as a result of such release amounted to $11,838.

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

NOTE 12: INCOME TAXES (CONT'D)

g. Uncertain tax position

The following table summarizes the activity related to the Company's gross unrecognized tax benefits from January 1, 2014 to December 31, 2014:

	Year ended December 31 2014
Balance at January 1	$ -
Acquisition of Perion	574
Increase related to prior year tax positions	9
Increase related to current year tax positions	141
Balance at December 31	**$ 724**

As of December 31, 2014, the entire amount of the unrecognized tax benefits could affect the Company's income tax provision and the effective tax rate.

The Company believes that it has adequately provided for any reasonably foreseeable outcome related to tax audits and settlements. 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 2011 are considered final.

h. Tax loss carry-forwards

As of December 31, 2014, the Company's U.S. subsidiary has net operating loss carry-forwards in the amount of $15,200.

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.

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

NOTE 13: EARNINGS PER SHARE

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

	Year ended December 31		
	2012	2013	2014
Numerator:			
Net income attributable to ordinary shares - basic	$ 314,718	$ 62,408	$ 42,826
Gains related to convertible debt, net	-	-	(2,100)
Net income from continuing operations - diluted	$ 314,718	$ 62,408	$ 40,726
Net loss from discontinued operations – basic and diluted	$ (23,798)	$ (33,795)	$ -
Denominator:			
Weighted average number of ordinary shares outstanding during the year	52,320,133	53,910,741	68,213,209
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	944,610	926,566	970,632
Diluted number of ordinary shares outstanding - Continuing operations	53,264,743	54,837,307	70,327,411
Diluted number of ordinary shares outstanding - Discontinued operations	53,264,743	54,837,307	-
Basic net earnings (loss) per ordinary share			
Continuing operations	$ 6.02	$ 1.16	$ 0.63
Discontinued operations	$ (0.45)	$ (0.63)	$ -
Net income	$ 5.57	$ 0.53	$ 0.63
Diluted net earnings (loss) per ordinary share			
Continuing operations	$ 5.91	$ 1.14	$ 0.58
Discontinued operations	$ (0.45)	$ (0.62)	$ -
Net income	$ 5.46	$ 0.52	$ 0.58
Ordinary shares equivalents excluded because their effect would have been anti-dilutive	1,634,174	2,778,618	3,766,080

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

NOTE 14: RESTRUCTURING COSTS

In November 2014, the Company initiated a restructuring plan of its search monetization business, mainly to reduce workforce, close or consolidate certain facilities, as well as other cost saving measures. Pursuant to this restructuring plan, the Company has 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
Total restructuring costs	**3,981**

As of December 31, 2014, the restructuring accrual on the balance sheet amounted to $2,257.

NOTE 15: 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. In September 2014, following the Company's moving of its offices to Holon, the above mentioned services are no longer being provided. During 2014, ClientConnect received $1,645 of services from Conduit, and provided $142 of services to Conduit.

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 customer acquisition costs in the statement of income for the year 2013 includes $18,271 that were acquired from Perion, of which $12,823 were still due as of December 31, 2013 and are included in the balance of accounts payable as of such date.

c. As a condition precedent to the closing of ClientConnect Acquisition on January 2, 2014, Conduit and ClientConnect entered into ancillary agreements. As a result of the ClientConnect Acquisition, two officers of Conduit became members of the Company's board of directors and the major shareholders of Conduit also became major shareholders of the Company. Such directors and major shareholders are parties to or otherwise bound by some of such agreements.

d. On December 31, 2013, Conduit and ClientConnect entered into the Working Capital Financing Agreement pursuant to which Conduit agreed to make available to ClientConnect a credit line of up to $20,000. Any amounts withdrawn under this credit line were required to be used solely to finance payments related to the then-current working capital needs of the ClientConnect business. The outstanding principal amount under the credit line bore interest at a rate of 3% per annum. During 2014, ClientConnect has borrowed $14,750 under this credit line, which matured in April 2014. The interest paid by ClientConnect in connection with this credit line amounted to $117.

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

NOTE 16: MAJOR CUSTOMER

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 could 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,		
	2012	2013	2014
Customer A	81%	63%	74%
Customer B	15%	22%	*

* 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 2014:

	December 31	
	2013	2014
Customer A	-	65%

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

NOTE 17: GEOGRAPHIC INFORMATION

The following table presents the total revenues for the years ended December 31, 2012, 2013 and 2014, allocated to the geographic areas in which it was generated:

	Year ended December 31		
	2012	2013	2014
North America (mainly U.S.)	$ 460,162	$ 239,884	$ 292,409
Europe	65,340	69,833	69,281
Other	11,506	15,791	27,041
	$ 537,008	**$ 325,508**	**$ 388,731**

The total revenues are attributed to geographic areas based on the location of the end-users.

The following table presents the locations of the Company's property and equipment as of December 31, 2013 and 2014:

	December 31,	
	2013	2014
Israel	$ 436	$ 9,952
U.S.	1,102	1,460
Europe	651	768
	$ 2,189	**$ 12,180**

NOTE 18: SUBSEQUENT EVENTS

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 ("MakeMeReach").

MakeMeReach enables mobile app developers to efficiently and effectively scale their advertising campaigns on social media, with a specific focus on optimizing mobile ad campaigns. MakeMeReach is a Facebook Preferred Marketing Developer (PMD) and Twitter Marketing Platform Partner (MPP).

The Purchase price was $5,583 in cash and $4,759 in form of 1,437,510 ordinary shares. In the subsequent 12 months, the Company may be required to pay additional $442 in cash and issue an additional $442 in ordinary shares to the founder of MakeMeReach, subject to retention conditions. In addition, certain key employees of MakeMeReach are entitled to retention payments in an aggregate amount of $775, of which $144 in cash and $63 in the form of 18,998 ordinary shares were paid upon closing. An additional $360 in cash and $208 in ordinary shares may be paid to such key employees in the 12 months post-closing, subject to retention conditions.

The acquisition will be accounted for as a business combination under ASC 805, "Business Combination". The purchase price allocation for the acquisition has not been determined as of the filing of this report.

Exhibit 99.2

OPERATING RESULTS AND FINANCIAL REVIEW
IN CONNECTION WITH THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

In this report, 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 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 3.889 to $1.00, the representative exchange rate reported by the Bank of Israel on December 31, 2014.

The following discussion of our financial condition and results of operations should be read in conjunction with our financial statements and the related notes to the financial statements (the "Financial Statements"), which were filed with the Securities and Exchange Commission (the "SEC") on this report on Form 6-K on April 6, 2015. 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 in our report on Form 6-K filed with the SEC on September 23, 2014 and elsewhere in this report.

Overview

Perion 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. Our software monetization platform, Perion Codefuel, empowers digital businesses to optimize installs, analyze data and maximize revenue. Our advertising mobile marketing business enables developers to make decisions on where to spend advertising budgets to produce the highest yield and the most visibility.

Our headquarters and primary research and development facilities are located in Israel, and we have other offices located in the United States and France.

Our products, whether they be the software developed and marketed by ourselves, or the search properties offered together with products of our software developing partners, have been installed by 246 million consumers in 2014, as compared to 348 and 266 million in 2012 and 2013, respectfully. These installation statistics refer to the number of computers having a unique ID onto which one of our products has been installed, regardless of whether such product or search property is actively being used. The number of consumers actually using one of our products, or search properties together with the product of one our partner software developers, as of December 31, 2014 was 8 million, as compared to 28 and 25 million as of December 31, 2012 and 2013, respectfully. We measure quality of users primarily by user location, with the highest revenue users being located in North America, defined as "Tier 1," followed by European users as "Tier 2" and users in the rest of the world to be "Tier 3." The decline in the number of installations and users of our products is primarily the result of our significantly reducing the investment in aquiring new customers and forming partnerships with software developers in the second half of 2014. This investment is coningent on our ability to estimate the future revenues and return on this investment over the coming year. As a result of the recurring and increasingly severe policy changes by our search engine partners, since mid-2014 we lack visibilty regarding the return and future profitability of these investments. We subsequently decided to decrease this investment causing signifcant decrease in installations and users of our products.

As we are experiencing difficulties in growing our desktop monetization business, we have been focusing our growth efforts in developing a mobile advertising platform for app developers. The business acquired from Grow Mobile, coupled with our organic development efforts, empowers effective advertising campaigns for mobile app developers seeking to achieve distribution through advertising. By aggregating hundreds of advertising networks and exchanges in real-time through a single insertion order, our self-serve and fully managed mobile marketing platforms, enable mobile applications developers to increase their customer acquisition, retention and monetization. Our self-serve platform, which has been released in Beta version, offers mobile application developers an efficient interface, containing on a single dashboard, a data room with all advertising networks and campaigns together, with easy and understandable graphs and tables, enabling immediate analysis and effective action. In addition, utilizing its proprietary bidding algorithm, it enables sophisticated retargeting, of high quality users and integrate top mobile advertising exchanges. Finally, by providing easy access to these tools and simplifying the administration of the advertising process, mobile application developers are free to focus on improving their mobile media buying strategy.

We are also developing other platforms and software, to enable mobile app developers improved optimization and monetization of their existing user base.

Recent Acquisitions

On January 2, 2014, we completed the purchase of 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"). On December 31, 2013, pursuant to a Split Agreement, Conduit transferred to ClientConnect the entire activities and operations, and related assets and liabilities, of its ClientConnect business on a cash-free and debt-free basis and the Conduit shareholders became the shareholders of ClientConnect in proportion to their ownership of Conduit. Upon the consummation of the ClientConnect Acquisition, each ClientConnect ordinary share was exchanged for approximately 0.2387 of our ordinary shares, as a result of which ClientConnect became a wholly owned subsidiary of ours. In addition, we granted options to purchase our ordinary shares to ClientConnect employees in exchange for their options to purchase ClientConnect shares that were issued to them upon the consummation of the Conduit Split as a roll-over of their then existing options to purchase ordinary shares of Conduit. Accordingly, we issued 54.75 million of our ordinary shares to the ClientConnect shareholders and granted options to purchase 2.82 million of our ordinary shares to the ClientConnect employees. Immediately, following the closing, we were owned approximately 81% 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 by the treasury stock method, together with an adjustment for an assumed issuance of our ordinary shares at a reference price of $10.49 per share based on the Black Scholes values of out-of-the-money Perion options and ClientConnect options). ClientConnect provides distribution, monetization and analytical services to software developers, distributors and publishers.

In accordance with Accounting Standards Codification Topic 805, "Business Combinations" ("ASC 805"), using the acquisition method of accounting, ClientConnect is deemed the accounting acquirer and Perion is deemed the accounting acquiree. In accordance with the ASC 805 presentation requirements, following the acquisition, our 2014 financial statements include ClientConnect’s comparative numbers, namely, consolidated balance sheets as of December 31, 2013, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the two years in the period ended December 31, 2013.

On July 15, 2014, we consummated the acquisition of Grow Mobile, Inc., a Delaware corporation headquartered in San Francisco (“Grow Mobile”). The initial payments of $10 million ($8.2 million after taking into account a post-closing working capital adjustment) was paid in cash (of which approximately $1.3 million is subject to continued employee vesting) and $7 million was paid in the form of 687,467 ordinary shares (of which approximately $1.1 million in form of 108,159 shares are subject to continued employee vesting). In addition, the former Grow Mobile security holders may earn up to an additional $13.2 million in cash and $11.8 million in ordinary shares, contingent upon achieving certain revenue and profit milestones through June 30, 2016. See Note 3b of the Financial Statements for additional information on accounting for our Grow Mobile acquisition. Grow Mobile provides an innovative platform for mobile advertising that enables advertisers of mobile applications to buy, track, optimize, and scale user acquisition campaigns from a single dashboard. Grow Mobile has become part of Perion’s mobile marketing business, which was recently created to address the advertising needs of advertisers of mobile applications, and will enable Perion to provide a more comprehensive technical and platform solution for app developers.

On February 10, 2015, we consummated the acquisition of Make Me Reach SAS, a private French company headquartered in Paris, France (“Make Me Reach”). The total purchase price was $11.2 million, of which $5.6 million in cash and $4.8 million in the form of 1,437,510 ordinary shares were paid upon closing. In the subsequent 12 months post-closing, the founder of Make Me Reach may be entitled to receive an additional amount of $0.4 million in cash and $0.4 million in ordinary shares. In addition, certain key employees of Make Me Reach are entitled to retention payments in an aggregate amount of up to $775,000, of which, $144,397 was paid in cash at closing and $62,883 was paid in the form of 18,998 ordinary shares at closing. In the subsequent 12 months post-closing, certain key employees may be entitled to receive the remaining balance of the retention payment, which shall be paid as follows: up to $359,552 in cash and $208,168 in ordinary shares. Make Me Reach has become part of Perion’s mobile marketing business which was recently created to address the advertising needs of mobile app developers, and will enable Perion to provide a more comprehensive technical and platform solution for app developers. Make Me Reach is a Facebook Preferred Marketing Developer (PMD) and Twitter Marketing Platform Partner (MPP).

Revenues

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

	Year Ended December 31,		
	2012	**2013**	**2014**
Search	$ 517,060	$ 277,275	$ 330,757
Advertising and other	19,948	48,233	57,974
Total Revenues	**$ 537,008**	**$ 325,508**	**$ 388,731**

Our search revenues decreased by 46% in 2013, despite an increase in the number of searches, primarily because the fee rates payable to us under our search agreement with Microsoft decreased significantly beginning in 2013. That decrease in revenues had the greatest impact in North America, where Microsoft served as the main provider of our search. In 2014, revenues increased by 19% due to organic growth, as well as the acquisition of Perion’s search activity.

Advertising and other revenues increased in 2013, as a result of introducing and marketing other applications in our toolbar being distributed as part our search-generated revenues. In 2014, while that activity actually decreased, the increase was primarily a result of acquiring the Perion's activity, including display advertising and sales of the proprietary products Smilebox and IncrediMail.

While revenues increased over 19% year over year, this increase was due to the increase experienced in the first half of 2014. Revenues in the fourth quarter of 2014 were $78.1 million, reflecting a 7% decrease compared to the same quarter in 2013. With the continued lack of visibility due to multiple changes applied by third parties outside of our control, and as a result of our continuing to invest lower amounts in customer acquisition, we expect 2015 revenues to be at a lower level than that of the last quarter of 2014 on an annualized basis.

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, all related to our product revenues and communicating with our users. Cost relating to search and advertising revenues are immaterial. Therefore, the percentage of cost of revenues increased with the Perion acquisition, where cost of revenues was higher relating to the product revenues. The number of employees included in cost of revenues was zero in both 2012 and 2013, and 22 at the end of 2014.

Customer Acquisition Costs

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. These amounts are primarily based on fixed fee arrangements and on revenue share agreements with our traffic sources. We increased customer acquisition costs dramatically in 2013, with the 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, in an effort to offset the decreasing revenue levels under our search agreement with Microsoft. 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, starting the third quarter of 2014, we have sought to work with higher margin partners, and we have been gradually shifting our model, with an emphasis on revenue share agreements instead of fixed fee arrangements. Customer acquisition costs were $119.6 million, $185.4 million, and $174.6 million in 2012, 2013, and 2014, respectively. The reduction in customer acquisition costs in 2014 as compared to 2013 was primarily in the second half of the year. In the fourth quarter of 2014, customer acquisition costs were approximately $29.0 million, compared to $59.6 million in the first quarter of 2014. We continue to seek higher quality and higher margin partners, as well as to prefer the sharing of future revenues and the risk inherent in them, rather than pay an up-front fixed fee to our partner software developers. Accordingly, we expect customer acquisition costs in 2015 to continue at a level similar to that of the fourth quarter of 2014.

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 2014 increased compared to the prior year, primarily as a result of our concentrated effort in developing an advertising platform for mobile app developers. In addition, we discontinued some of the consumer app developed and as a result impaired in-process research and development acquired in the acquisition of Perion, as we realigned our product development focus in this direction. We continue to develop our mobile advertising platform, currently with an emphasis on the self-service offering. In addition, we are developing a platform for optimizing and increasing the retention and subsequent monetization from the users of our partners' mobile apps. This in addition to the ongoing development effort required in our desktop monetization offering, adapting and maintain compatibility with the ever-changing software landscape in which we operate. As a result, we expect a nominal increase in research and development expense in 2015, which, coupled with a decrease in revenues, would cause this expense to increase as a percentage of revenues, as well.

The number of employees in research and development were 146, 173, and 217 at the end of 2012, 2013, and 2014, 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. The number of employees in sales and marketing was 56, 66, and 115 at the end of 2012, 2013, and 2014, 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 in 2013 are those of ClientConnect prior to the acquisition of Perion and reflect the G&A expenses of a private company, acting as a division of a larger one, focused on organic growth. G&A expenses in 2014 are reflective of an independent public company, with all of its requisite costs, managing organic activity as well as being an active acquire of other businesses. This is also reflected in the significant increase in the number of G&A employees from 2013 to 2014. The number of G&A employees was 40, 55, and 98, at the end of 2012, 2013, and 2014, respectively.

We continue to enhance our management team with experienced professionals capable of managing constant change and new businesses, organic and acquired. G&A expenses, primarily salaries and share based compensation, increased nominally in 2012, 2013 and 2014. Looking forward, in 2015 we expect G&A expenses (excluding costs stemming from new acquisitions) to remain at the same level.

Impairment and Restructuring Charges

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.

Costs related 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, amounted to $4.0 million in 2014.

Income Tax Expense

A significant portion of our income is taxed in Israel. The standard corporate tax rate in Israel for 2014 and thereafter is 26.5% and was 25.0% in 2012 and 2013. 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 2014.

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 on a straight-line basis over the service period during which awards are expected to vest.

Total stock-based compensation expense recorded during 2014 was $15.1 million, of which $0.2 million was included in cost of revenues, $2.4 million was included in research and development costs, $3.0 million in selling and marketing expenses, $9.3 million in general and administrative expenses and $0.2 million in restructuring costs.

As of December 31, 2014, the maximum total compensation cost related to options and restricted stock units ("RSUs"), granted to employees and directors not yet recognized amounted to $13.0 million. This cost is expected to be recognized over a weighted average period of 1.4 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 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, 2014 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 12 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 the business combination. We test goodwill for impairment 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. As of December 31, 2014, no impairment of goodwill has been identified.

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 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 plan, we recorded an impairment of $0.6 million of property and equipment.

Results of Operations

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

	Year Ended December 31,		
	2012	**2013**	**2014**
Revenues:			
Search	96%	85%	85%
Advertising and Other	4	15	15
Total revenues	**100%**	**100%**	**100%**
Costs and expenses:			
Cost of revenues	1%	2%	7%
Customer acquisition costs	22	57	45
Research and development	3	7	11
Selling and marketing	1	3	7
General and administrative	1	6	10
Impairment and restructuring charges	-	-	6
Total costs and expenses	**28**	**75**	**86**
Operating income	**72**	**25**	**14**
Financial income (expense), net	1	1	(1)
Income before taxes on income	**73**	**26**	**13**
Income tax expense	14	7	2
Income from continuing operations	**59**	**19**	**11**
Loss from discontinuing operations, net	(4)	(10)	-
Net income	**54%**	**9%**	**11%**

Year Ended December 31, 2014 Compared to Year Ended December 31, 2013

As described above, in accordance with generally 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 years ended December 31, 2013 and 2012 represent ClientConnect's results for such periods. 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 and 2012 results discussed below.

Revenues. Revenues increased by 19%, from $325.5 million in 2013, to $388.7 million in 2014. This increase was a result of increases in each of our revenue streams, as discussed below:

Search revenues. Search revenues increased by 19% in 2014, from $277.3 million in 2013, to $330.8 million in 2014. This increase was due to an increase in the number of downloads and consequently the number of users using our search service. This increase is attributable to organic growth, as well as the acquisition of Perion's activity, which too was based on search-generated revenues. In 2013, Perion's search revenues were $59.0 million. The year over year growth occurred entirely in the first half of 2014, when we recorded search-generated revenues of $189.3 million, increasing 38% over the first half of 2013. In the second half of 2014, with the reduced level of visibility regarding the future revenues from newly acquire users, we drew back on our customer acquisition costs and revenues declined, with search-generated revenues totaling $68.1 million in the fourth quarter of 2014, reflecting a 4% decrease as compared to the fourth quarter of 2013. We expect search-generated revenues to continue and be our main source of revenues in 2015. Since we continue to lack visibility regarding future revenues from acquired users, we expect to maintain this lower level of customer acquisition costs and therefore expect a continued decline in revenues going into 2015.

Advertising and other revenues. Advertising and other revenues increased by 20% in 2014, from $48.2 million in 2013 to $58.0 million in 2014. This increase is primarily attributable to the acquisition of Perion's activity, its products and advertising revenues. In 2013, Perion's product and other revenues were $28.1 million. In addition the increase was due to display advertising revenues that are to a great extent dependent on the distribution being done for search-generated revenues. This increase was partially offset by a decrease resulting from certain policy changes associated with the distribution of toolbars, causing us to discontinue one of our toolbar marketing venues. As with search generated revenues, the increase in these other revenues was attributable to the first half of the year, when such revenues totaled $35.0 million, an increase of 51% over the first half of 2013, while in the second half of 2014, with the decrease in customer acquisition costs, such revenues decreased as well, with a 23% decrease in the fourth quarter of 2014, from $13 million in the fourth quarter of 2013 to $10.0 million, in the fourth quarter of 2014. Therefore, as with the continued trend in search-generated revenues, we expect these revenues to decline somewhat from this level in 2015.

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

	Year ended December 31,	
	2013	2014
Cost of revenues	$ 6,104	$ 27,817
Customer acquisition costs	185,355	174,575
Research and development	22,394	44,129
Selling and marketing	10,298	25,388
General and administrative	19,115	37,605
Impairment and restructuring charges	-	23,922
Total costs and expenses	**$ 243,266**	**$ 333,436**

Cost of revenues. Cost of revenues in 2014 was $27.8 million, as compared to $6.1 million in 2013, representing an increase of 356 %. The increase is primarily attributable to amortization of intangible assets of $15.7 million due to acquisitions, as well as the cost of revenues for Perion's legacy business recorded in 2014 and not included in 2013. In 2013, Perion's cost of revenues were $11.4 million. The increase in amortization expenses caused the gross profit margin to decrease from 98% in 2013 to 93% in 2014.

Customer acquisition costs ("CAC"). CAC amounted to $174.6 million in 2014, compared to $185.4 million in 2013, representing a decrease of 6%. This decrease was entirely in the second half of 2014, when CAC amounted to $59.0 million, reflecting a 43% decrease compared to the second half of 2013. Our reduced level of investment was in light of our not having sufficient visibility to ensure a positive return on this investment, and as a result, our decision to engage higher margin software developing partners. As we continue to lack visibility regarding future returns on these investments, we expect to maintain this reduced level of investment in CAC in 2015.

Research and development expenses ("R&D"). R&D increased by $21.7 million in 2014, from $22.4 million in 2013, or 7% of sales, to $44.1 million, or 11% of sales, in 2014. The increase was primarily attributable to maintaining the technological edge of our desktop technologies and their ability to adapt to changing Internet platforms; and investing in mobile advertising platforms, primarily in our advertising marketing platform, developing tools and platforms to enhance our ability to increase advertising revenues, independent of our search offering. As a result, we expect our R&D expenditure to continue to increase nominally, and, coupled with an expected decrease in revenues, this will cause R&D expenses to increase as a percentage of sales as well.

Selling and marketing expenses ("S&M"). Selling and marketing expenses increased 147%, from $10.3 million in 2013 to $25.4 million in 2014. This increase was primarily attributable to the Perion acquisition. In 2013, Perion's S&M expenses amounted to $11.1 million. As we increase the marketing efforts required for our new products and platforms, we expect these expenses to increase only nominally from the level established in 2014, and, coupled with a lower level of expected revenue, we expect this expenditure to increase as a percentage of revenue in 2015.

General and administrative expenses ("G&A"). G&A increased 97%, from $19.1 million in 2013 to $37.6 million in 2014. The increase reflects primarily the fact that 2013 does not include Perion's activity and G&A in that year are those of ClientConnect prior to the acquisition, reflecting the G&A expenses of a private company, acting as a division of a larger one, focused on organic growth. G&A expenses in 2014 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 2013, Perion's G&A expenses were in the amount of $15.1 million. We expect G&A expense in 2015 to continue at a level similar to that of 2014.

Impairment and restructuring charges. Impairment charges of $19.9 million related to intangible assets associated with desktop technologies acquired in the Perion acquisition that during the integration process were determined 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 desktop products and technologies that we had developed or acquired.

On November 6, 2014, we announced a restructuring of our search monetization business, which included a head count reduction as well as other cost saving measures, such as consolidating of our Israeli offices from three floors to two in order to sublease the third floor. The cost of $4.0 million recorded reflects expenses accrued, resulting from this restructuring.

Taxes on income. Income tax in 2014 was $9.6 million, compared to $22.6 million in 2013. In 2013, taxes on income includes tax expenses of $11.8 million in respect of release of ClientConnect trapped earnings. Excluding such $11.8 million, the effective tax rate in 2013 was 13%, increasing to 18% in 2014, primarily as a result of the significant increase in expenses not deductible for tax purposes in 2014, including $3.2 million of acquisition-related costs and $4.7 million in employee stock-based compensation.

Net income. Net income in 2014 was $42.8 million, compared to $28.6 million in 2013. This increase was primarily a result of net loss of $33.8 million from discontinued operations in 2013, partially offset by an impairment costs to intangible assets in the amount of $19.9 million, net of deferred tax benefit of $3.2 million that did not contribute to the current operations.

Year Ended December 31, 2013 Compared to Year Ended December 31, 2012

Revenues. Revenues decreased by 39% in 2013, from $537.0 million in 2012 to $325.5 million in 2013. This decrease was a result of a significant decrease in our search revenues partially offset by an increase in advertising revenues, as discussed below:

Search revenues. Search revenues decreased by 46%, from $517.0 million in 2012 to $277.3 million in 2013, primarily due to the significant decrease in the fees payable under the Microsoft agreement. The fees payable by Microsoft vary annually over the term of our prior agreement with Microsoft.

Advertising. Advertising revenues increased by 142%, from $19.9 million in 2012 to $48.2 million in 2013. This increase is attributable mainly to our offering to developers with the ability to easily incorporate ads into the download and installation process of their software, thereby further increasing monetization opportunities. The following table shows costs and expenses by category (in thousands of U.S. dollars):

	Year ended December 31,	
	2012	**2013**
Cost of revenues	$ 5,513	$ 6,104
Customer acquisition costs	119,555	185,355
Research and development	16,858	22,394
Selling and marketing	7,920	10,298
General and administrative	4,705	19,115
Total costs and expenses	**$ 154,551**	**$ 243,266**

Cost of revenues. Cost of revenues increased by 11% from $5.5 million in 2012, to $6.1 million in 2013.

Customer acquisition costs. CAC increased by 55%, from $119.6 million in 2012, to $185.4 million in 2013. This increase reflected our strategy to grow search-generated revenues, leveraging our ability to analyze this investment and determine the expected positive return over the coming year.

Research and development expenses. R&D expenses increased by 33%, from $16.9 million in 2012, to $22.4 million in 2013. The increase was as a result of our investing in enriching our product pipeline and addressing frequent changes in the Internet and PC platforms that serve as a basis for our offering.

Selling and marketing expenses. S&M expenses increased by 30%, from $7.9 million in 2012, to $10.3 million in 2013. The increase was primarily due to an increase of $4.8 million in salaries and related expenses, as we increased our staff to generate a higher level of revenues.

General and administrative expenses. G&A increased from $4.7 million in 2012, to $19.1 in 2013. This increase was primarily due to $8.5 million increase in share based compensation expenses and $3.7 million in legal costs associated with the reorganization in regards to the split of ClientConnect from Conduit and the acquisition of Perion compared to those expenses in the previous year.

Taxes on Income. Income tax in 2013 was $22.6 million, compared to $75.4 million in 2012. While nominally taxes on income declined, the effective income tax rate increased from 19% to 27%, primarily as a result of the significant increase in expenses not deductible for tax purposes in 2013, particularly $8.8 million in employee stock-based compensation and $2.1 million of costs related to acquisition.

Net Income. Net income in 2013 was $28.6 million, compared to $290.9 million in 2012. This decrease was primarily a result of the significant decrease in revenues as described above.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2014, we had $101.2 million in cash and cash equivalents, compared to $0.9 million at December 31, 2013. The low cash balance as of December 31, 2013, was due to the terms of the ClientConnect split from Conduit, pursuant which most of the cash balances as of such date remained with Conduit. The increase in cash and cash equivalents in 2014 is the result of $72.0 million cash provided by operating activities and $35.2 million from financing activities, mainly proceeds from the issuance of convertible debt, partially offset by $7.0 million of investing activities. We believe that our cash balances and cash generated from operations will be sufficient to meet our anticipated cash requirements for operations for at least the next 12 months.

For 2012, 2013 and 2014, our cash flows from continuing operations were as follows:

	Year ended December 31,		
	2012	**2013**	**2014**
Net cash provided by operating activities	$ 328,460	$ 85,291	$ 72,042
Net cash provided by (used in) investing activities	61,211	(77,873)	(6,984)
Net cash provided by (used in) financing activities	(335,603)	$ (64,159)	35,176
	$ 54,068	**$ (56,741)**	**$ 100,234**

Net cash provided by operating activities. In 2014, our operating activities provided cash in the amount of $72.0 million, primarily due to net income of $42.8 million, increased by non-cash depreciation, amortization and impairment expenses of $42.0 million, non-cash stock-based compensation expenses of $15.1 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.

In 2013, our continuing operating activities provided cash in the amount of $85.3 million primarily due to net income from continuing operations of $62.4 million, increased by non-cash depreciation and amortization of $2.1 million, non-cash stock-based compensation expenses of $10.4 million, other non-cash expenses of $1.2, a decrease in accounts receivables of $18.0 million and an increase in accounts payable of $8.7 million, offset by a decrease in deferred revenues of $6.2 million and changes in other operating assets and liabilities of $11.3 million.

In 2012, our continuing operating activities provided cash in the amount of $328.5 million primarily due to net income from continuing operations of $314.7 million, increased by non-cash depreciation and amortization of $1.9 million, non-cash stock-based compensation expenses of $1.6 million, an increase in accounts payables of $10.4 million, an increase in accrued expenses and other current liabilities of $13.0 and an increase in other receivables of $2.0 million, partially offset by an increase in accounts receivable of $7.7 million, decrease in deferred revenues of $6.3 million and non-cash financial income of $1.3 million.

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

In 2013, our continuing investing activities used cash in the amount of $77.9 million, primarily due to investments in short term investments, net of proceeds, of $76.0 million and purchase of property and equipment of $1.9 million.

In 2012, our continuing investing activities provided cash in the amount of $61.2 million, primarily due to net proceeds from short term investments of $62.9 million, offset by purchase of property and equipment of $1.7 million.

Net cash provided by (used in) financing activities. In 2014, our financing activities provided cash in the amount of $35.2 million, 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 contribution by shareholders, offset by $2.5 million payment made in connection with an acquisition and $2.3 million repayment of long-term bank loans.

In 2013, our continuing financing activities used cash in the amount of $64.2 million, primarily due to the $65 million of payment of dividend made upon consummation of the spin-off of ClientConnect from Conduit, partially offset by proceeds from exercise of stock options in the amount of $0.8 million.

In 2012, our continuing financing activities used cash in the amount of $335.6 million, primarily due to the $338.7 million payment of dividend, offset by proceeds from the exercise of stock options in the amount of $3.1 million.

Credit Facilities

In September 2011, we entered into a loan agreement with each of Bank Leumi Le-Israel ("Leumi") and First International Bank of Israel ("FIBI"), to secure a credit facility of up to a total of $20 million of financing. During the second quarter of 2012, we amended both agreements, and in addition reduced the amount of the credit facility to $10 million, $6.0 million provided by Leumi and $4.0 million by FIBI. In December 2014 we executed a cross-currency and interest SWAP transaction with Leumi in order to mitigate the potential impact of the fluctuations in the ILS/$ exchange rate in regards to the future interest and principal payments of our convertible bonds (described below), which are all denominated in ILS. In April 1, 2015, we amended the agreement with Leumi in regards to the financial covenants to secure the fulfillment of all the obligations, liabilities and indebtedness to Leumi effective December 31, 2014. The repayment of the debt is structured over four and five years from the respective draw dates, and we have an option under each agreement for early repayment. As of December 31, 2014, we had bank loans outstanding in the amount of $4.25 million to be paid over the next one to two years, including $1.95 million classified as long term debt and $2.3 million as current maturities. In order to secure our obligations to the banks, we originally granted to the banks a first priority floating charge on all of our assets and a first priority fixed charge on certain other immaterial assets, which were removed in 2014 due to the lower outstanding amounts under the credit facilities. We do have in place negative pledges for the benefit of the banks and liens over other deposits deposited with the banks from time to time.

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 (approximately $36.9 million as of December 31, 2014) at a price of ILS 965 per unit of ILS 1,000 par value. We received total net proceeds of approximately ILS 136.4 million (approximately $35.1 million as of December 31, 2014). The Bonds, which are listed on the Tel Aviv Stock Exchange, are convertible into an aggregate of approximately 4.27 million ordinary shares, at a conversion price of ILS 33.605 per share (approximately $8.6 per share as of December 31, 2014). The principal of the Bonds are repayable in five equal annual installments commencing 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 increase to up to 6% in the event of downgrades of our debt rating. 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, including:

- the distribution will not cause shareholders’ equity to be below $150 million or, except with respect to repurchase of equity securities, retained earnings to be below $31.5 million;
- the distributions in any year may not exceed 50% of the accumulated net income of the prior years, starting with 2013; and
- the ratio of net financial indebtedness to twelve-month EBITDA is not more than 1.5 at the end of the prior quarter.

As of December 31, 2014, we met all the foregoing conditions.

Under the terms of our Bonds, 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, 2014, we were in compliance with all of the foregoing covenants.

Exhibit 99.3

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements on Form F-3 (Registration No. 333-195794) and in the related Prospectus and Form S-8 (File Nos. 333-193145, 333-192376, 333-188714, 333-171781, 333-152010 and 333-133968), of our report dated April 6, 2015, with respect to the consolidated financial statements of Perion Network Ltd. and its subsidiaries for the year ended December 31, 2014, which included in this Form 6-K.

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

Tel Aviv, Israel
April 6, 2015