

Wix.com Ltd.  
Form 20-F  
March 29, 2018

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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FORM 20-F

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REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE  
ACT OF 1934

OR

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

For the fiscal year ended December 31, 2017

OR

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

OR

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

Commission file number 001-36158

WIX.COM LTD.  
(Exact name of Registrant as specified in its charter)

ISRAEL  
(Jurisdiction of incorporation or organization)

40 Namal Tel Aviv St.  
Tel Aviv, 6350671 Israel  
(Address of principal executive offices)

Eitan Israeli, Adv.  
Vice President and General Counsel  
Telephone: +972 (3) 545-4900

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Wix.com Ltd.

40 Namal Tel Aviv St.

Tel Aviv, 6350671 Israel

(Name, telephone, e-mail and/or facsimile number and address of company contact person)

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

Title of each class	Name of each exchange on which registered
Ordinary shares, par value NIS 0.01 per share	The NASDAQ Stock Market LLC

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Securities registered or to be registered pursuant to Section 12(g) of the Act: None.

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None.

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: As of December 31, 2017, the registrant had outstanding 46,453,583 ordinary shares, par value NIS 0.01 per share.

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

Yes            No

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

Yes            No

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

Yes            No

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

Yes            No

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

Large accelerated filer   Accelerated filer  
Non-accelerated filer   Emerging growth company

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

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

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

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

Item 17            Item 18

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

Yes            No

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WIX.COM LTD.

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 FORM 20-F  
 ANNUAL REPORT FOR THE FISCAL YEAR ENDED DECEMBER 31, 2017
 

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## INTRODUCTION

In this annual report, the terms “Wix,” “we,” “us,” “our” and “the company” refer to Wix.com Ltd. and its subsidiaries.

This annual report includes other statistical, market and industry data and forecasts which we obtained from publicly available information and independent industry publications and reports that we believe to be reliable sources. These publicly available industry publications and reports generally state that they obtain their information from sources that they believe to be reliable, but they do not guarantee the accuracy or completeness of the information. Although we believe that these sources are reliable, we have not independently verified the information contained in such publications. Certain estimates and forecasts involve uncertainties and risks and are subject to change based on various factors, including those discussed under the headings “—Special Note Regarding Forward-Looking Statements” and “Item 3.D—Risk Factors” in this annual report.

Throughout this annual report, we refer to various trademarks, service marks and trade names that we use in our business. The “Wix.com” design logo is the property of Wix.com Ltd. Wix® is our registered trademark in the United States. We have several other trademarks, service marks and pending applications relating to our solutions. Other trademarks and service marks appearing in this annual report are the property of their respective holders.

## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

In addition to historical facts, this annual report contains forward-looking statements within the meaning of Section 27A of the U.S. Securities Act of 1933, as amended (the “Securities Act”), Section 21E of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”) and the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. We make forward-looking statements in this annual report that are subject to risks and uncertainties. These forward-looking statements include information about possible or assumed future results of our business, financial condition, results of operations, liquidity, plans and objectives. In some cases, you can identify forward-looking statements by terminology such as “believe”, “may”, “estimate”, “continue,” “anticipate,” “intend”, “should”, “expect”, “predict”, “potential”, or the negative of these terms or other similar expressions. The statements we make regarding the following matters are forward-looking by their nature:

- our expectations regarding future changes in our cost of revenues and our operating expenses on an absolute basis and as a percentage of our revenues;
- our expectation that the percentage of revenues we derive from outside of North America will increase in the future;
- our expectation that the percentage of revenues we derive from premium subscriptions will increase in the future;
- our expectations with respect to the integration and performance of recent acquisitions;
- our planned level of capital expenditures and our belief that our existing cash and cash from operations will be sufficient to fund our operations for at least the next twelve months; and
- our plans to make our product, support and communication channels available in additional languages and to expand our payment infrastructure to transact in additional local currencies and accept additional payment methods.

The preceding list is not intended to be an exhaustive list of all of our forward-looking statements. The forward-looking statements are based on our beliefs, assumptions and expectations of future performance, taking into account the information currently available to us. These statements are only predictions based upon our current expectations and projections about future events. There are important factors that could cause our actual results, levels of activity, performance or achievements to differ materially from the results, levels of activity, performance or

achievements expressed or implied by the forward-looking statements. In particular, you should consider the risks provided under “Item 3.D—Risk Factors” in this annual report.

You should not rely upon forward-looking statements as predictions of future events. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee that future results, levels of activity, performance and events and circumstances reflected in the forward-looking statements will be achieved or will occur. Except as required by law, we undertake no obligation to update publicly any forward-looking statements for any reason after the date of this annual report, to conform these statements to actual results or to changes in our expectations.

(i)

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## PART I

## Item 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

## Item 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

## Item 3. KEY INFORMATION

## A. Selected Financial Data

The following tables set forth our selected consolidated financial data. You should read the following selected consolidated financial data in conjunction with “Item 5. Operating and Financial Review and Prospects” and our consolidated financial statements and related notes included elsewhere in this annual report. Historical results are not necessarily indicative of the results that may be expected in the future. Our financial statements have been prepared in accordance with U.S. Generally Accepted Accounting Principles, or U.S. GAAP.

The selected consolidated statements of operations data for each of the years in the three-year period ended December 31, 2017 and the consolidated balance sheet data as of December 31, 2016 and 2017 are derived from our audited consolidated financial statements appearing elsewhere in this annual report. The consolidated statements of operations data for the years ended December 31, 2013 and 2014 and the consolidated balance sheet data as of December 31, 2013, 2014 and 2015 are derived from our audited consolidated financial statements that are not included in this annual report.

	Year Ended December 31,				
	2013	2014	2015	2016	2017
	(in USD thousands except share and per share data)				
Consolidated Statements of Operations:					
Revenues	80,473	141,841	203,518	290,103	425,636
Cost of revenues <sup>(1)</sup>	15,257	26,108	34,970	45,287	69,391
Gross profit	65,216	115,733	168,548	244,816	356,245
Operating expenses:					
Research and development <sup>(1)</sup>	29,660	57,832	77,647	105,368	153,635
Selling and marketing <sup>(1)</sup>	53,776	97,742	120,010	156,512	204,435
General and administrative <sup>(1)</sup>	8,307	15,803	19,526	26,968	48,186
Total operating expenses	91,743	171,377	217,183	288,848	406,256
Operating loss	(26,527 )	(55,644 )	(48,635 )	(44,032 )	(50,011 )
Financial income (expenses), net	(603 )	2,144	77	247	(5,015 )
Other income (expenses)	(18 )	(14 )	(11 )	(4 )	76
Loss before taxes on income	(27,148 )	(53,514 )	(48,569 )	(43,789 )	(54,950 )
Taxes on income	1,572	3,052	2,765	3,107	1,323
Net loss	(28,720 )	(56,566 )	(51,334 )	(46,896 )	(56,273 )
Basic and diluted net loss per ordinary share <sup>(2)</sup>	(3.33 )	(1.49 )	(1.30 )	(1.12 )	(1.24 )
Weighted average number of ordinary shares used in computing basic and diluted net loss per ordinary share <sup>(2)</sup>	11,597,826	37,847,093	39,408,928	42,032,818	45,552,199



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As of December 31,  
2013 2014 2015 2016 2017  
(in USD thousands)

Consolidated Balance Sheet Data:

Cash and cash equivalents and short-term deposits	101,258	86,011	109,999	148,562	200,612
Restricted deposits	3,306	5,909	3,851	931	949
Marketable securities	-	-	-	22,742	32,730
Total assets	115,355	118,422	149,433	214,684	330,013
Deferred revenues	37,184	66,598	104,767	156,733	216,811
Total shareholders' equity (deficiency)	62,296	18,650	(3,805 )	(2,469 )	11,320

Year Ended December 31,  
2013 2014 2015 2016 2017  
(in USD thousands except registered users and premium subscription data)

Supplemental Financial and Operating Data:

Collections <sup>(3)</sup>	98,673	171,255	241,687	342,069	483,989
Free cash flow <sup>(4)</sup>	1,173	(6,422 )	14,534	36,158	70,683
Number of registered users at period end <sup>(5)</sup>	42,126,246	57,945,346	76,965,482	97,358,803	119,263,915
Number of premium subscriptions at period end <sup>(6)</sup>	789,753	1,232,827	1,767,423	2,465,160	3,223,036

(1) Includes share-based compensation expense as follows:

	Year Ended December 31, 2013 2014 2015 2016 2017 (in USD thousands)					
Cost of revenues	490	1,004	1,353	1,798	2,930	
Research and development	3,149	6,594	9,234	14,543	26,227	
Selling and marketing	1,185	2,533	3,077	4,553	6,585	
General and administrative		2,230	3,806	5,069	7,154	11,958
Total share-based compensation expense		7,054	13,937	18,733	28,048	47,700

Basic and diluted net loss per ordinary share is computed based on the weighted average number of ordinary (2) shares outstanding during each period. For additional information, see Notes 2t and 13 to our consolidated financial statements included elsewhere in this annual report.

Collections is a non-GAAP financial measure that we define as total cash collected by us from our customers in a given period. Collections is calculated by adding the change in deferred revenues for a particular period to revenues for the same period. Collections consists primarily of amounts from annual and monthly premium (3) subscriptions by registered users, which are deferred and recognized as revenues over the terms of the subscriptions and payments by our registered users for domains, which are also recognized ratably over the term of the service period. The following table reconciles revenues, the most directly comparable U.S. GAAP measure, to collections for the periods presented:

Year Ended December 31,  
2013 2014 2015 2016 2017

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(in USD thousands)

Reconciliation of Revenues to Collections:

Revenues	80,473	141,841	203,518	290,103	425,636
Change in long-term and short-term deferred revenues	18,200	29,414	38,169	51,966	58,353
Collections	98,673	171,255	241,687	342,069	483,989

For a description of how we use collections to evaluate our business, see “Item 5. Operating and Financial Review and Prospects—Key Financial and Operating Metrics.” We believe that this non-GAAP financial measure is useful in evaluating our business because it is a leading indicator of our revenue growth and the growth of our overall business. Nevertheless, this information should be considered as supplemental in nature and is not meant as a substitute for revenues recognized in accordance with U.S. GAAP. Other companies, including companies in our industry, may calculate collections differently or not at all, which reduces their usefulness as a comparative measure. You should consider collections along with other financial performance measures, including revenues, net cash used in operating activities, and our financial results presented in accordance with U.S. GAAP.

Free cash flow is a non-GAAP measure defined as cash flow provided by (used in) operating activities minus (4) capital expenditures. The following table reconciles cash flow from operating activities, the most directly comparable U.S. GAAP measure, to free cash flow:

	Year Ended December 31,				
	2013	2014	2015	2016	2017
	(in USD thousands)				
Reconciliation of cash flow provided by (used in) operating activities to free cash flow:					
Net cash provided by (used in) operating activities	4,243	(803 )	20,876	40,573	83,052
Capital expenditures <sup>(a)</sup>	(3,070)	(5,619)	(6,342 )	(4,415 )	(12,369)
Free cash flow	1,173	(6,422)	14,534	36,158	70,683

<sup>(a)</sup> Capital expenditures consist primarily of investments in leasehold improvements for our office space and the purchase of computers and related equipment.

For a description of how we use free cash flow to evaluate our business, see “Item 5. Operating and Financial Review and Prospects—Key Financial and Operating Metrics.” We believe that this non-GAAP financial measure is useful in evaluating our business because free cash flow reflects the cash surplus available or used to fund the expansion of our business after payment of capital expenditures relating to the necessary components of ongoing operations.

Nevertheless, this information should be considered as supplemental in nature and is not meant as a substitute for net cash flows from operating activities presented in accordance with U.S. GAAP. Other companies, including companies in our industry, may calculate free cash flow differently or not at all, which reduces their usefulness as a comparative measure. You should consider free cash flow along with other financial performance measures, including revenues, net cash used in operating activities, and our financial results presented in accordance with U.S. GAAP.

Number of registered users at period end is defined as the total number of users, including those who purchase premium subscriptions, who are registered with Wix.com with a unique email address at the end of the period. (5) Following registration, the length of time that registered users take to design and publish a website varies significantly from hours to years, and many registered users never publish a website. Our use of the term “registered user” herein is not intended to necessarily indicate a certain level of engagement or how close a registered user is to potentially publishing their website. See “—D. Risk Factors—Risks Related Our Business and Our Industry”

A single registered user can purchase multiple premium subscriptions. Our premium subscriptions purchased in (6) any given period are derived from users that registered with us during that period or during prior periods. See “Item 5. Operating and Financial Review and Prospects—Overview—Premium Subscription Analysis.”

## B. Capitalization and Indebtedness

Not applicable.

C Reasons for the Offer and Use of Proceeds

Not applicable.

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D. Risk Factors

Our business faces significant risks. You should carefully consider all of the information set forth in this annual report and in our other filings with the United States Securities and Exchange Commission (“SEC”), including the following risk factors which we face and which are faced by our industry. Our business, financial condition and results of operations could be materially and adversely affected by any of these risks. In that event, the trading price of our ordinary shares would likely decline and you might lose all or part of your investment. See “Special Note Regarding Forward-Looking Statements” on page i.

Risks Related to Our Business and Our Industry

Our results of operations and future prospects will be harmed if we are unable to attract and retain new registered users and premium subscriptions at a sufficient rate.

The number of new registered users we attract and retain is a key factor in growing our premium subscription base, which in turn drives our revenues and collections. To date, we have grown the number of registered users and premium subscriptions through the provision of complimentary user-friendly, drag-and-drop web development, design and management software, which can be upgraded to a subscription-based package with various additional solutions and services. Approximately 60% of our new premium subscriptions in any given quarter are generated by users who registered in earlier quarters. We therefore attribute considerable importance to the continued growth of our registered user base since it is our primary source of premium subscriptions. A number of factors could impact our ability to attract new and retain registered users and premium subscriptions, including:

- the quality and design of our platform compared to other similar solutions and services;
- our ability to develop new technologies or offer new products and service offerings;
- the pricing of our solutions and services compared to our competitors;
- the reliability and availability of our customer service;
- our ability to provide value-added third-party applications, solutions and services that integrate into our solutions;
- the perceived or actual security, integrity, reliability, quality or compatibility problems with our solutions, including those related to system outages, unscheduled downtime, and the impact of cyber-attacks on our registered users’ data;
- unexpected increases in the cost of acquiring new registered users, beyond the year-over-year increase that we experience due to competition in certain geographies; and
- our ability to expand into new geographic markets.

Our results of operations would be adversely affected if our selling and marketing activities fail to generate traffic to our website, registered users and premium subscriptions at the levels that we anticipate or fail to generate such traffic on a cost-effective basis.

We acquire some of our registered users through paid marketing channels, such as cost-per-click advertisements on search engines and social networking sites and targeted and generic banner advertisements on other sites. A portion of the registered users acquired through these channels purchase premium subscriptions over time. In order to maintain our current revenues and grow our business, we need to continuously optimize our marketing campaigns aimed at acquiring new registered users and premium subscriptions. In the years ended December 31, 2015, 2016 and 2017, advertising expenses were \$87.6 million, \$113.2 million and \$141.3 million, respectively, representing 36%, 33% and 29% of our collections, respectively. We conduct search engine optimization and A/B testing, a marketing approach which aims to identify which changes to our website will increase or maximize user interest and user acquisition. We also rely upon the assumption that historical user behavior can be extrapolated to predict future user behavior, and we structure our marketing activities in the manner that we believe is most likely to encourage the user behaviors that lead to desired future outcomes, such as purchasing premium subscriptions. However, we may fail to accurately predict user acquisition, interest, or to fully understand or estimate the conditions and behaviors that drove historical user behavior and thus, fail to generate the return on marketing we expected. For example, events outside our control, such as announcements by our competitors or other third-parties of significant business developments, have in the past adversely affected the returns we had anticipated on our marketing expenses in the short-term. An unexpected increase in the marginal acquisition cost of new registered users may also have an adverse effect on our ability to grow the number of our registered users and premium subscriptions. In addition, we may invest a significant portion of our marketing expenses in more traditional advertising and promotion of our brand, including through sponsorships with City Football Group Limited, the New York Yankees and others, and our nationally televised Super Bowl campaigns, the effectiveness of which is more difficult to track than online marketing. If any of our marketing campaigns prove less successful than anticipated in attracting registered users and premium subscriptions, we may not achieve our return-on-investment targets, and our rate of registered user and premium subscription acquisition may fail to meet market expectations, which could have a material adverse effect on our share price.

If the security of the confidential information or personal information of our registered users and the visitors to our registered users' websites stored in our systems is breached or otherwise subjected to unauthorized access, our reputation may be harmed and we may be exposed to liability.

Due to the nature of our business, our systems and the systems of our cloud providers with which we contract, store large amounts of personally identifiable information, credit card information, passwords and other sensitive or critical data for our registered and prospective users and the visitors of our registered users' websites, as well as information they may view as confidential. We do not regularly monitor or review the content that our users upload and store, and, therefore, we do not control the substance of the content on our servers, which may include personal information and risks of external or internal unauthorized access or leaks exist.

We cannot be sure that the steps that we have taken to protect the security, integrity and confidentiality of the information we collect, store, or transmit will succeed in preventing inadvertent or unauthorized use or disclosure. Like many online and other companies, we have experienced attempts by third parties to circumvent the security of our systems. We have and are experiencing attempts by hackers to penetrate our internal network and hosted servers using various techniques, including tailored phishing attacks and other exploitation of known and unknown vulnerabilities. We may not be successful in identifying, blocking or otherwise preventing access to our systems, despite our security measures. Since techniques used to obtain unauthorized access change frequently, we may be unable to anticipate these techniques or to implement adequate preventative measures. Furthermore, we may be unable to promptly detect an attack, for example, in the case of an advanced persistent threat where unauthorized system access was obtained in advance and without our knowledge in preparation for a future attack. In addition, we rely on outside parties to provide physical security for our facilities, including data centers. Any physical breach of security could result in unauthorized access or damage to our systems.





If our security measures are breached because of third-party action, employee error, malfeasance or otherwise, or if design flaws in our software are exposed and exploited, and, as a result, an unauthorized party may access any of our registered users' data or the data of the visitors of our registered users' websites, or otherwise gain control of our platform, or if it is perceived that any unauthorized access has occurred (such as when users utilize weak passwords or their credentials are disclosed, stolen or lost), our brand may be negatively impacted, our relationships with our registered users may be damaged, our registered users may choose to cancel their premium subscriptions, and we could incur liability and be subject to regulatory investigations and fines, negatively impacting our financial performance, all of which may result in a decline of our stock price. In addition, many jurisdictions have enacted laws requiring companies to notify individuals of data security breaches involving certain types of personal data, and our agreements with certain partners require us to notify them in the event of a security incident. These mandatory disclosures regarding a security breach sometimes lead to negative publicity and may cause our registered users to lose confidence in the effectiveness of our data security measures. Any security breach, whether actual or perceived, may harm our reputation, and we could lose registered users or fail to acquire new registered users. In addition, we could be required to devote significant resources to investigate and address a security breach. A violation of data privacy laws could result in reputational harm, loss of business, legal action and / or regulatory inquiries and monetary or other penalties that could negatively impact our reputation and adversely affect our operating results and financial condition.

If our security measures fail to protect credit card details, passwords or personally identifiable information adequately, we could be liable to both our registered users and their customers for their losses (such as fraudulent credit card transactions), as well as to the vendors under our agreements with them, such that we could be subject to fines and higher transaction fees, we could face regulatory action, and our registered users and vendors could end their relationships with us, any of which could harm our business, results of operations or financial condition. There can be no assurance that the limitations of liability in our contracts would be enforceable or adequate or would otherwise protect us from any such liabilities or damages with respect to any particular claim. We also cannot assure you that our existing general liability insurance coverage and coverage for errors and omissions will continue to be available on acceptable terms or will be available in sufficient amounts to cover one or more large claims, or that the insurer will not deny coverage as to any future claim. The successful assertion of one or more large claims against us that exceeds available insurance coverage, or the occurrence of changes in our insurance policies, including premium increases or the imposition of large deductible or co-insurance requirements, could have a material adverse effect on our business, financial condition and results of operations.

A decrease in renewal rates of our existing premium subscriptions could adversely impact our collections and revenues, result in delayed or lower than forecasted profitability, and harm our ability to forecast our business.

The rate at which premium subscriptions are purchased and the rate at which premium subscriptions are renewed, significantly impact the overall number of premium subscriptions and, as a result, our collections and our revenues. As of December 31, 2017, one-year, two-year and three-year subscription packages constituted approximately 82% of all premium subscriptions. One of the key drivers of renewal rates is whether premium subscriptions are for longer or shorter periods than one year. One-year subscriptions have higher renewal rates than monthly subscriptions, since there are not as many opportunities in a one-year period to fail to renew such subscription, than a monthly subscription, whether deliberately or through failure to update payment information upon expiration. If the number of premium subscriptions or renewal rates fail to meet our expectations, our profitability and future prospects may be adversely impacted. In addition, premium subscriptions currently renew automatically at the end of each subscription period unless registered users cancel their subscription in advance. Any limitation or restriction imposed on this ability to bill our registered users on a recurring basis or the manner in which the rebilling is performed, whether due to new regulations or otherwise, may significantly lower the renewal rate of our subscriptions.

If we are unable to maintain and enhance our brand, or if events occur that damage our reputation and brand, our ability to expand our base of registered users and premium subscriptions may be impaired, and our business and financial results may be harmed.

Maintaining, promoting and enhancing the Wix brand is critical to expanding our base of registered users and premium subscriptions. For both registered users and premium subscriptions, we market our solutions and services primarily through cost-per-click advertisements on search engines and social networking sites, participation in social networking sites, free and paid banner advertisements on other websites, and small Wix advertisements on our registered users' websites that do not currently have a premium subscription, and through more traditional advertising such as sponsorships and television commercials. Our ability to attract additional registered users depends in part on increasing our brand recognition. In addition, our solutions and services are also marketed through free traffic sources, including customer referrals, word-of-mouth and direct searches for our "Wix" name, or web presence solutions, in search engines.

Maintaining and enhancing our brand will depend largely on our ability to continue to provide high-quality, well-designed, useful, reliable, secure, and innovative solutions and services, which we may not do successfully. We may introduce new solutions or terms of use that registered users do not like, which may negatively affect our brand. Additionally, if registered users have a negative experience using third-party applications and websites integrated with Wix, such an experience may affect our brand. Our Wix Arena Marketplace enables independent web designers to offer their services to registered users who engage them directly. We do not conduct any evaluation of these designers' credentials. Our App Market enables third party independent developers to offer their applications to our registered users and premium subscribers. We conduct a limited evaluation of the developers of third party applications in our App Market, which is focused mainly on the technical functionality of applications. There is no assurance that the applications in our App Market meet security or privacy industry standards. Our reputation may be harmed if any of the services provided by these independent designers and developers do not meet registered users' quality or security expectations. Maintaining and enhancing our brand may require us to make substantial investments and these investments may not be successful. Additionally, errors, defects, disruptions, security vulnerabilities or other performance problems with our products and platform, including the products and solutions we license from third parties, may harm our reputation and brand and adversely affect our ability to attract new users and premium subscriptions, especially if these errors occur when we introduce new services or features, all of which may reduce our revenue. If we fail to successfully promote and maintain the Wix brand or if we incur excessive expenses in this effort, we could be subject to claims regarding our business and financial results may be adversely affected.

If we fail to develop and introduce new products and services and keep up with rapid changes in design and technology, our business may be materially adversely affected.

Our future success will depend on our ability to improve the look, function, performance and reliability of our solutions and services, including integrating services by third parties. The development of new and upgraded solutions and new service offerings involves a significant amount of time for our research and development team, as it can take our developers months to update, code and test new and upgraded solutions and integrate them into our platform. Further, our design team spends a significant amount of time and resources in order to incorporate various design elements, such as customized colors, fonts, content and other features into our new and upgraded solutions. The introduction of these new and upgraded design features, solutions and services also involves a significant amount of marketing spending. We must also manage our existing offerings, as we continually test, support, and market these solutions and applications. Furthermore, our ability to attract new users and increase revenue from existing users depends in part on our ability to increase adoption and usage of our products. If we are unable to successfully enhance our existing products to meet evolving user requirements and increase adoption and usage of our products, or if our efforts to increase the usage of our products are more expensive than we expect, or if our solutions fail to achieve widespread acceptance, our revenues and competitive position could be materially adversely affected.



We depend on highly skilled personnel to enhance our product and grow our business, and if we are unable to hire, integrate and retain our personnel, we may not be able to address competitive challenges and continue our rapid growth.

Our future success and ability to maintain effective growth will depend upon our continued ability to hire, integrate and retain highly skilled personnel, including senior management, engineers, designers, developers, product managers, finance and legal personnel and customer support representatives. In addition to hiring and integrating new employees, we must continue to focus on retaining our best employees who foster and promote our innovative corporate culture.

In order to remain competitive, we must continue to develop new solutions, applications and enhancements to our existing platform, which require us to compete with many other companies for software developers with high levels of experience in designing, developing and managing cloud-based software. Our principal research and development activities are conducted from our headquarters in Tel Aviv, Israel, and we face significant competition for suitably skilled developers in this region. We also engage a team of developers in Ukraine through a third-party service organization and directly with local subcontractors, and we have engaged a team of local developers in Lithuania in order to benefit from the significant pool of talent that is more readily available in each of those markets. Many larger companies expend considerably greater amounts on employee recruitment and may be able to offer more favorable compensation and incentive packages than us. If we cannot attract or retain sufficient skilled research and development, marketing, operations and customer service professionals, our business, prospects and results of operations could be materially adversely affected. In particular, we have experienced a competitive hiring environment in Israel, where we are headquartered.

If we lose the services of any of our key personnel and fail to manage a smooth transition to new personnel, our business could suffer. We do not carry key person insurance on any of our executive officers or other key personnel. We have entered into employment and services agreements with our executive officers and key employees that contain non-compete covenants. Despite these agreements, we may not be able to retain these officers and employees. If we cannot enforce the non-compete covenants, we may be unable to prevent our competitors from benefiting from the expertise of our former employees or prevent our employees from establishing their own competing ventures, either of which could materially adversely affect our business and results of operations. In addition, we have grown significantly in recent years and it may be harder to retain employees that seek to work at a smaller organization.

Furthermore, many of our employees may expect to receive significant proceeds from sales of our equity in the public markets after their equity compensation has fully vested. A drop in share price due to market fluctuations may reduce their motivation to continue to work for us. Competition for highly skilled personnel is intense, particularly in the software industry. We may need to invest significant amounts of cash and equity to attract and retain new employees, and we may never realize returns on these investments. If we are not able to effectively hire and retain employees, our ability to achieve our strategic objectives will be adversely impacted, and our business will be harmed.

In addition, due to our rapid growth which has raised the profile of our company, our employees may be increasingly targeted for recruitment by competitors and other companies in the technology industry, which may make it more difficult for us to retain employees and/or increase retention costs.

We are subject to privacy and data protection laws and regulations, including the EU General Data Protection Regulation, as well as contractual privacy and data protection obligations, which could affect our efficiency and our marketing activities. Our failure to comply with these laws, regulations or obligations, or any future laws, regulations, or obligations could subject us to sanctions and damages and could harm our reputation and business.

We hold certain personal data of our registered users, primarily, email address, geo-location, usage data, password and additional information, and may hold certain personal data of the visitors to our registered users' websites. We also collect billing information, such as credit card numbers, full names, billing address and phone numbers of our registered users and their customers. With respect to the credit card data, we have implemented data security standards, operating rules and certification requirements in accordance with PCI Data Security Standards and we have maintained PCI compliance level 1 certification since February 2013. Our Wix Hive API captures a variety of actions, activities and other data relating to the visitors of our registered users' websites, such as contact information, messages, purchases, bookings and more. Such data relating to the visitor activity of each website are stored and managed in a centralized database dedicated to that website, and can be accessed by installed apps and through the dashboard of the owner of such website.

We are subject to the privacy and data protection laws and regulations adopted by Israel, Europe and US and potentially, other jurisdictions. Where the local data protection and privacy laws of a jurisdiction apply, we may be required to register our operations in that jurisdiction or make changes to our business so that registered users' data is only collected and processed in accordance with applicable local law. Privacy laws restrict our storage, use, processing, disclosure, transfer and protection of personal information, including credit card data obtained in relation to our registered users, and possibly the visitors of our registered users' websites. We strive to comply with all applicable laws, regulations, policies and legal obligations, as well as with certain industry standards (including voluntary third-party certification bodies such as TRUSTe) relating to privacy and data protection. We are also subject to privacy and data security-related obligations deriving from our privacy policy and terms of use with our registered users, and we may be liable to third parties in the event we are deemed to have wrongfully processed personal data.

The regulatory framework for privacy and data security issues worldwide is currently in flux and is likely to remain so for the foreseeable future. In particular, the European Union has traditionally taken a broader view as to what is considered personal information and has imposed greater obligations under their privacy and data protection laws. For example, the European Union adopted a new General Data Protection Regulation in April 2016, which replaced the European Data Protection Directive and includes more stringent obligations for online businesses. The approved regulation is due to become applicable on May 25, 2018 and will replace, to a large extent, the data protection laws of each European Union member state. The General Data Protection Regulation will result in more stringent requirements for data processors and controllers. Such requirements will include more fulsome disclosures about the processing of personal information, data retention limits and deletion requirements, mandatory notification in the case of a data breach and elevated standards regarding valid consent in some specific cases of data processing. The General Data Protection Regulation also includes substantially higher penalties for failure to comply, inter alia, a fine up to 20 million EUR or up to 4% of the annual worldwide turnover, whichever is greater, can be imposed. When these laws and regulations come into effect, the more stringent requirements on privacy user notifications and data handling will require us to adapt our business and incur additional costs.

In addition, effective as of September 1, 2015, the Russian parliament adopted a set of amendments to the Russian Federal Law on Personal Data, stating that personal data pertaining to Russian citizens must be stored in databases located in Russia. We continue to monitor the implementation of these legislative changes.

In general, privacy concerns are becoming more widely acknowledged and may cause our users to resist providing the personal data necessary to allow them to use our platform effectively. Our users' customers may also resist providing personal data to our users due to privacy concerns. Measures we have implemented in order to protect user data, including those of our users' customers, may not alleviate all potential privacy concerns and threats.

A failure by us or a third-party contractor providing services to us to comply with applicable privacy and data security laws, regulations, self-regulatory requirements or industry guidelines, or our terms of use with our registered users, may result in sanctions, statutory or contractual damages or litigation and may subject us to reputational harm. These proceedings or violations could force us to spend money in defense or settlement of these proceedings, result in the imposition of monetary liability, restrict or block access to our services from a certain territory, incur additional management resources, increase our costs of doing business, and adversely affect our reputation and the demand for our solutions. Government agencies and regulators have reviewed, are reviewing and will continue to review, the personal data practices of online media companies including their privacy and security policies and practices. The FTC in particular has approved consent decrees resolving complaints and their resulting investigations into the privacy and security practices of a number of online social media companies. The possible outcome of such reviews may result in changes to our products and policies. If we are unable to comply with any such reviews or decrees that result in recommendations or binding changes, or if the recommended changes result in degradation of our products, our business could be harmed. Governmental agencies may also request or take registered user data for national security or informational purposes, and also can make data requests in connection with criminal or civil investigations or other matters, which could harm our reputation and our business.

We are exposed to risks, including security risks, associated with credit card and debit card payment processing.

We accept payments primarily through credit and debit card transactions and alternative payment methods and provide a portal for registered users to submit payment information for processing. We are subject to a number of risks related to credit and debit card payments, including:

- we pay interchange and other fees, which may increase over time and may require us to either increase the prices we charge for our products or experience an increase in our operating expenses;

- if our billing systems fail to work properly and, as a result, we do not automatically charge our premium subscriptions' credit cards on a timely basis or at all, we could lose revenues;

- if we are unable to maintain our chargeback rate at acceptable levels, our credit card fees for chargeback transactions, or our fees for other credit and debit card transactions or issuers, may increase, issuers may terminate their relationship with us, or we may face fines from the issuers; and

- we are reliant on third parties such as gateways, payment service providers and acquiring banks which may face down time and thus affect our cash flow.

Our billing system interfaces with a number of different gateway providers that link to a number of different payment card processors based on the jurisdiction and other factors. In connection with this system, we have implemented data security standards, operating rules and certification requirements in accordance with Payment Card Industry, or PCI, Data Security Standards in connection with internal control requirements under Israeli law and we have maintained PCI compliance level 1 certification since February 2013. There can be no assurance that our billing system data security standards, or those of our third-party service providers, will adequately comply with the billing standards of any future jurisdiction in which we seek to market our service offering. Further, if there is unauthorized access to the credit card and other payment information we collect, store and transmit, we could face legal liability, as well as the possibility of liability to banks or other third parties, including pursuant to our agreements with payment service providers. Our billing systems depend on the efficacy of secure transmission protocols and related technologies. We

cannot be sure that the steps we take to ensure the security of the collection and transmission of credit card and other payment information will be sufficient.

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We are subject to the rules and regulations adopted by the payment card networks, such as Visa and MasterCard and Central Banks, and if we fail to adhere to their rules and regulations, we would be in breach of our contractual obligations to payment processors and acquiring banks, which could subject us to damages and liability and could eventually prevent us from processing or accepting credit card payments.

The payment card networks, such as Visa and MasterCard, have adopted rules and regulations that apply to all merchants who process and accept credit cards for payment of goods and services. We are obligated to comply with these rules and regulations as part of the contracts we enter into with payment processors and acquiring banks. The rules and regulations adopted by the payment card networks include the Payment Card Industry Data Security Standards, or PCI DSS. Under the PCI DSS, we are required to adopt and implement internal controls over the use, storage and security of payment card data to help prevent fraud. If we fail to comply with the rules and regulations adopted by the payment card networks, including the PCI DSS, we would be in breach of our contractual obligations to payment processors and merchant banks. Such failure to comply may subject us to fines, penalties, damages, higher transaction fees, and civil liability, and could eventually prevent us from processing or accepting debit and credit cards or could lead to a loss of payment processor partners. We also cannot guarantee that such compliance will prevent illegal or improper use of our payments systems or the theft, loss or misuse of the debit or credit card data of registered users or participants or regulatory or criminal investigations. A failure to adequately control fraudulent credit card transactions would result in significantly higher credit card-related costs and any increases in our credit card and debit card fees could adversely affect our results of operations. Moreover, any such illegal or improper payments could harm our reputation and may result in a loss of service for our registered users, which would adversely affect our business, operating results and financial condition.

If we fail to maintain a consistently high level of customer service, our brand, business and financial results may be harmed.

We believe our focus on customer support is critical to retaining, expanding and further penetrating our user base. As a result, we have invested in the quality and training of our customer support and call center personnel. If we are unable to maintain a consistently high level of customer service, we may lose existing registered users. In addition, regardless of the performance of our customer support and call center, users of online services base their purchasing decisions on a number of factors, including price, design, integration abilities, functionality of services, reputation and ease of use. If we fail to maintain adequate customer support and improve the functionality of our solutions and their ease of use in accordance with our users' needs, our reputation, financial results and business prospects may be materially harmed.

Exchange rate fluctuations may negatively affect our results of operations.

Our results of operations and cash flows are affected by fluctuations due to changes in foreign currency exchange rates. In 2017, approximately 70% of our revenues were denominated in U.S. dollars and approximately 30% in other currencies, primarily in Euros, British Pounds and the Brazilian Real. Conversely, in 2017, approximately 63% of our cost of revenues and operating expenses were denominated in U.S. dollars, approximately 33% in New Israeli Shekels, or NIS. Our NIS-denominated expenses consist primarily of personnel and overhead costs. Since a significant portion of our expenses are denominated in NIS, the appreciation of the NIS relative to the U.S. dollar might adversely impact our net loss or net income (if any). We estimate that a 10% appreciation in the value of the NIS against the U.S. dollar would have decreased our net loss by approximately \$15.7 million in 2017. We estimate that a 10% devaluation of certain foreign currencies (including Euros, British Pound, Brazilian Real and Russian Ruble) against the U.S. dollar would have increased our net loss by approximately \$11 million in 2017. These estimates of the impact of fluctuations in currency exchange rates on our historic results of operations may be different from the impact of fluctuations in exchange rates on our future results of operations since the mix of currencies comprising our revenues and expenses may change. We evaluate periodically the various currencies to which we are exposed and take selective hedging measures to reduce the potential adverse impact from the appreciation or the devaluation of our non-U.S. dollar-denominated operations, as appropriate and as reasonably

available to us. We cannot provide any assurances that our hedging activities will be successful in protecting us from adverse impacts from currency exchange rate fluctuations. See “Item 11. Quantitative and Qualitative Disclosures About Market Risk.”

Our results of operations and business could be harmed if we fail to manage the growth of our infrastructure effectively or seek to expand our infrastructure into additional geographic locations.

We have experienced rapid growth in our business and operations, which places substantial demands on our operational infrastructure. The scalability and flexibility of our cloud-based infrastructure depends on the functionality of our third-party servers and their ability to handle increased traffic and demand for bandwidth. The significant growth in the number of registered users and transactions, and new developments and functionalities offered on our platform, has increased the amount of both our stored marketing and research data and the data of our registered users. In the future, we may be required to allocate resources, and spend substantial amounts to build, purchase and lease data centers and equipment and upgrade our technology and network infrastructure, in order to handle increased customer traffic or in order to comply with data protection regulations in jurisdictions in which we provide our services. Any loss of such data due to disruptions in our infrastructure could result in harm to our brand or reputation. Moreover, as our registered user base grows, and as registered users rely on our platform for more complicated tasks, we will need to devote additional resources to improving our infrastructure and continuing to enhance its scalability, in order to maintain the performance of our platform and solutions. Our need to effectively manage our operations and growth will also require that we continue to assess and improve our operational, financial and management controls, reporting systems and procedures. We may encounter difficulties obtaining the necessary personnel or expertise to improve those controls, systems and procedures on a timely basis relative to our growth. If we do not manage the growth of our business and operations effectively, the quality of our platform and efficiency of our operations could suffer, which could materially harm our results of operations and business.

We have a history of operating losses and may not be able to achieve profitability in the future.

We have incurred net losses in each fiscal year since our inception and, as of December 31, 2017, we had an accumulated deficit of \$300 million. We expect that our operating expenses will continue to increase in the near term, primarily from increased selling and marketing expenses related to user acquisition activities and increased research and development expenses related to enhancing the functionality of our solutions and introducing new solutions. We seek to leverage these expenses across a growing base of premium subscriptions, while maintaining or increasing the amount of revenues per premium subscription, in order to achieve profitability. Nevertheless, if we are unable to grow our premium subscriptions at the required rate or to maintain or increase revenues per premium subscription, or if we incur unexpected expenses, we may be unable to achieve or sustain profitable operations.

We may face increased competition in a highly competitive market.

While there are other providers who offer features similar to those features found in our solutions, we believe that we do not compete with traditional web development firms as we focus on not only web development but also technology, design and business work flow processes. Nevertheless, we do compete with aspects of the services provided by web-based website design platforms and software programs, as well as some of the service offerings of a number of template-based web builder companies and designers, as well as large service companies who offer domain registration and hosting services, and provide the ability for businesses, organizations, professionals and individuals to build a website using their tools or have one built by their workforce. In the future, we may experience increased competition from web design companies if they broaden their product and service offerings, or lower their pricing. In addition, it is possible that other providers may in the future decide that offering a comprehensive DIY platform similar to our platform represents an attractive business opportunity. In particular, if a more established company were to target our market, we may face significant competition from a company that enjoys potential competitive advantages, such as greater name recognition, longer operating histories, substantially greater market share, larger existing user bases and substantially greater financial, technical and other resources. Such companies may use these advantages to offer solutions and services similar to ours at a lower price, develop different solutions to compete with our current solutions and respond more quickly and effectively than we do to new or changing opportunities, technologies, standards or client requirements. Increased competition could result in us failing to attract users or obtain premium subscriptions at the same rate. It could also cause us to have higher acquisition costs or force us to lower our prices or take other steps that may materially adversely impact our results of operations.

We have experienced rapid growth, both locally and internationally, and expect continued future growth. If we fail to manage our growth effectively, we may be unable to execute our business plan, maintain high levels of service or address competitive challenges adequately. Furthermore, our corporate culture has contributed to our success, and if we cannot maintain this culture as we grow, we could lose the innovation, creativity, and teamwork fostered by our culture, and our business may be harmed.

As of December 31, 2017, we had over 2,034 employees and contractors, which represents an approximately 49% net growth in headcount since December 31, 2016. We currently have offices in Tel-Aviv, Beer Sheba, San Francisco, Miami, New York, Los Angeles, Vancouver, Kiev, Dnipro, Vilnius, Berlin and Santana de Parnaiba in Brazil. We intend to further expand our overall business, including our headcount, with no assurance that our revenues will continue to grow. As we grow, we will be required to continue to improve our operational and financial controls and reporting procedures and we may not be able to do so effectively. In addition, as we have grown, we have significantly expanded our lease commitments and we plan to further expand such commitments. Our growth has placed, and will likely continue to place, a significant strain on our managerial, administrative, operational, financial and other resources.

In addition, we believe that an important contributor to our success has been and will continue to be our corporate culture, which we believe fosters innovation, teamwork, passion for our users, and a focus on attractive designs and technologically advanced products. Other than our executive officers, most of our employees have been with us for less than two years. As we continue to grow and evolve both in Israel and internationally, we must effectively integrate, develop and motivate a growing number of new employees. As a result of our rapid growth, we may find it difficult to build and maintain our strong corporate culture, which could limit our ability to innovate and operate effectively. Additionally, liquidity available to our historic employee security holders because of our rising share price could lead to disparities of wealth among our employees, which could adversely impact relations among employees and our culture in general. Any failure to preserve our culture could also negatively affect our ability to retain current and recruit new personnel, continue to perform at current levels or execute on our business strategy.

We may make acquisitions and investments, which could result in operating difficulties and other harmful consequences.

From time to time, we evaluate potential strategic acquisition or investment opportunities. Any transactions that we enter into could be material to our financial condition and results of operations. As described in Item 4.A. under the header “Information on the Company - History and Development of the Company – Our History”, in 2017, we acquired U.S. - based DeviantArt, Inc. and Israeli-based Loyalblocks Ltd. (operating as Flok). Prior to the DeviantArt acquisition, we had not made any significant acquisitions and our management has not had any experience making significant acquisitions or integrating acquired businesses. The process of integrating an acquired company, business or technology, such as DeviantArt or Flok, could create unforeseen operating difficulties and expenditures. We may not be able to successfully integrate the acquired personnel, operations and technologies or effectively manage the combined business following the completion of the acquisition of DeviantArt or Flok or any other complementary businesses or technologies we acquire in the future. The acquisitions of DeviantArt and Flok and other acquisitions and investments we evaluate from time to time carry with them a number of risks, including the following:

- diversion of management time and focus from operating our business;
- an inability to achieve synergies as planned;
- potential incompatibility of corporate cultures;
- implementation or remediation of controls, procedures and policies of the acquired company;
- coordination of product, engineering and selling and marketing functions;
- retention of employees from the acquired company;

liabilities that are larger than we currently anticipate and unforeseen increased expenses or delays associated with acquisitions, including transition costs to integrate acquired businesses that may exceed the costs that we currently anticipate;

- litigation or other claims arising in connection with the acquired company;

- the need to integrate operations across different cultures and languages and to address the particular economic, currency, political and regulatory risks associated with specific countries;

- the challenge of integrating the workforces of Wix and DeviantArt while maintaining focus on providing consistent, high quality customer service;

- use of resources that are needed in other parts of our business;
- use of substantial portions of our available cash to consummate the acquisition;
- incurrence of acquisition-related costs; and
- unrealistic goals or projections for the acquisition.

Our failure to address these risks or other problems encountered in connection with the acquisitions of DeviantArt and Flok and other acquisitions and investments we evaluate from time to time could cause us to fail to realize the anticipated benefits of such acquisitions or investments, incur unanticipated liabilities and harm our business, results of operations and financial condition.



Failures of the third-party hardware, software and infrastructure on which we rely, including third-party data center hosting facilities, and failure to protect against cyber-attacks, could adversely affect our business.

We rely on collocated servers, cloud service providers and other third-party hardware and infrastructure to support our operations. Our primary data centers are located in two geographically separate locations in the United States, one located on the East coast and the other located on the West coast. The vast majority of our data is located in our primary data centers in the United States from Google, Inc. and Amazon, as well as from Equinix, Inc. and we also use cloud storage from Google, Inc. and Amazon.com. A small amount of our data remains stored in servers leased from Hostway Services, Inc., which, in the past, hosted a more substantial amount of our data. If Equinix is unable or ceases, for any reason, to make its data centers available to us without sufficient advance notice, we would likely experience delays in billing our customers, until migration to an alternate data center provider is completed. Moreover, if for any reason our arrangement with one or more of the providers of the servers that we use is terminated, we could incur additional expenses in arranging for new facilities and support.

The owners and operators of the data centers and cloud services with which we are engaged, do not guarantee that our registered users' access to our platform will be uninterrupted or error-free. We do not control the operation of these facilities and such facilities could be subject to break-ins, cyber-crimes, computer viruses, sabotage, intentional acts of vandalism and other misconduct. Problems faced by our third-party hosting providers, including technological or business-related disruptions, as well as cybersecurity threats, could adversely impact our business and results of operations, as well as the experience of our users, which in turn could adversely impact our business and results of operations.

We and our hosting providers have in the past been, and expect to continue to be, subject to cyber-attacks, which have caused interruptions in our service. For example, we have been and continue to be the target of malicious denial-of-service, or DDoS attacks, a technique used by hackers to take an internet service offline by overloading its servers. Recent attacks have demonstrated that DDoS attacks continue to grow in size and sophistication and have an ability to widely disrupt internet services. The scale of some of these attacks against us has caused us and some of our registered user websites to experience significant but intermittent downtime. While none of these actual or attempted breaches has had a material impact on our operations or financial condition, we cannot provide any assurance that our business and results of operations will not be negatively materially affected by such breaches in the future.

Our servers and data centers are also vulnerable to damage or interruption from fires, natural disasters, terrorist attacks, power loss, telecommunications failures or similar catastrophic events. Disruptions to these servers could interrupt our ability to provide our platform and solutions and materially adversely affect our business and results of operations.

Any disruption, disabling, or attack affecting our equipment and systems and the hardware, software and infrastructure on which we rely could result in a security or privacy breach. Whether such event is physical human error or malfeasance (whether accidental, fraudulent or intentional) or electronic in nature (such as malware, virus, or other malicious code) such an event could disrupt or delay our ability to provide our platform and solutions to subscribers, result in the unauthorized access to and disclosure of personal or confidential data, subject us to legal liability and regulatory inquiry, harm our reputation and materially adversely affect our business and results of operations.

Our future prospects may be adversely affected if we are unable to generate revenues from sources other than our premium subscription packages.

In addition to revenue generated from our premium subscription packages, we generate revenue from additional products and services provided to all of our registered users that enhance their digital presence, such as revenue from sale of third-party domain registrations and from revenue sharing agreements we have for sale of email services and applications sold through our App Market. We cannot offer any assurances that sales of applications or other value-added solutions and services we may offer in the future will be a significant part of our revenues. In addition, our selling efforts to generate sales for these items, including via email marketing, may negatively impact our registered users' perception of us. If we do not succeed in selling these items, our future prospects may be adversely affected.

Our revenues may not increase if we are unable to maintain market share for mobile sites and applications, or if our mobile products fail to achieve widespread acceptance, which may affect our business and future prospects.

Consumers are increasingly accessing the Internet through devices other than personal computers, including mobile phones, smartphones and tablets. This trend has increased dramatically in the past few years and is projected to continue to increase. Acknowledging this trend, we launched our first free mobile offering in 2011, offering our registered users the ability to quickly and easily deploy an HTML5 mobile-optimized website and followed with a further enhanced mobile product in October 2013. In the fourth quarter of 2016, we launched the Wix App, a mobile application available on iOS and Android that allows our users to create and manage content on their websites from a mobile device. The mobile device market is characterized by the frequent introduction of new products and solutions, short product life cycles, evolving industry standards, continuous improvement in performance characteristics and rapid adoption of technological and product advancements. We may incur additional costs in order to adapt our current functionalities to other operating systems and we may face technical challenges adapting our products to different versions of already supported operating systems, such as Android variants offered by different mobile phone manufacturers. Furthermore, use of native applications is also subject to applicable terms of use of third party application stores. If we are unable to offer continual improvements to our mobile solutions or adapt their functionalities to new and different operating systems, our mobile solutions may fail to achieve widespread acceptance by our registered users. Additionally, the providers of certain platforms, such as Apple, may limit or restrict access entirely to their platforms. Therefore, our revenues may not increase even if we continue to penetrate the mobile device market. Furthermore, we are dependent on the interoperability of our products with third-party mobile devices and mobile operating systems, as well as web browsers that we do not control. Any changes in such devices, systems or web browsers that degrade the functionality of our products or give preferential treatment to competitive products could adversely affect usage of our products.

We rely on search engines and social networking sites to attract a meaningful portion of our registered users and for select social media data, and if those search engines or social networking sites change their listings or policies regarding advertising or data sharing, or increase their pricing or suffer problems, it may limit our ability to attract new registered users or collect valuable data.

We rely on search engines and social networking sites to attract new users, and many of our registered users located our website and solutions by clicking through on search results displayed by search engines such as Google and Yahoo!, and advertisements on social networking and other media sites such as Facebook and YouTube. Search engines typically provide two types of search results, natural (i.e., non-paid) and purchased listings. Search page ranking level based on natural search results are determined and organized solely by automated criteria set by the search engine and a ranking level cannot be purchased. Advertisers can also pay search engines to place listings more prominently in search results and websites in order to attract users to advertisers' websites. To some extent, we rely on natural searches in order to attract free traffic to our website. We seek to increase the likelihood that our website is displayed prominently when a potential user searches for a way to build a website. Nevertheless, we cannot be sure that our efforts to optimize search engine results will succeed. Search engines revise their algorithms from time to



time in an attempt to optimize their search result listings. In addition, some of the social media data provided by these search engines or social networking sites, are provided to us pursuant to third-party data sharing policies and terms of use or under data sharing agreements by third-party providers. If search engines or social networking sites on which we rely for algorithmic listings or for data collection, modify their algorithms, our websites may appear less prominently or not at all in search results, which could result in fewer users clicking through to our website and/or our ability to collect data may be impaired. Furthermore, competitors may in the future bid on our name from search services in an attempt to capture potential traffic. Preventing such actions and recapturing potential traffic could increase our expenses. Further, search engines or social networking sites may change their policies from time to time regarding pay-per-click or other means of advertising or could also interpret our data collection policies or practices as being inconsistent with their policies. If any change to these policies delays or prevents us from advertising these through channels, this could result in fewer users clicking through to our website and could harm our ability to collect valuable data.

We may face challenges expanding our premium subscription base and increasing revenues in emerging markets due to difficulties in these markets associated with payment collections as well as legal, economic, tax and political risks that are greater than more developed markets.

Expanding our business into emerging markets is an important component of our growth strategy and presents challenges that are different than those associated with more developed international markets. In particular, regulations limiting the use of local credit cards and foreign currency could constrain our growth in certain countries. For example, regulations in certain countries do not permit recurring charges on credit cards. In the last quarter of 2011, we established a Brazilian subsidiary to conduct local payment collection activities in Brazil in compliance with Brazilian currency controls. In 2014, we established a subsidiary in Mexico to facilitate local payments in compliance with Mexican regulations. In 2015, we established a subsidiary in India to facilitate local payments in compliance with Indian regulations. We may continue to establish additional subsidiaries in order, among others, to comply with regulations in the respective jurisdictions in which we provide our services. It is often difficult to establish an effective local business model, and we may need to enter into agreements with third-parties to process, on our behalf, payments via credit cards or alternative payment methods, including offline payment methods, or otherwise modify our business plans or operations in order to establish a local presence in emerging countries, which may delay our entry into these markets or increase our costs. Additionally, in emerging markets we may face the risk of rapidly changing government policies, including with respect to bank transfers and various payment methods including offline, and we may encounter sudden currency devaluations. Currency controls in emerging countries may make it hard for us to repatriate collections or profits that we generated in a particular country. It is possible that governments of one or more countries may censor or block access to the Internet or specifically our website due to political concerns or in response to certain incidents or events, thereby preventing people in these countries, including our registered users, from accessing our products. The growth of our business may be materially adversely affected if we are unable to expand our registered user base in emerging markets.

Our business could be affected by new governmental regulations regarding the Internet.

To date, government regulations have not materially restricted use of the Internet in most parts of the world. The legal and regulatory environment pertaining to the Internet, however, is uncertain and may change. New laws may be passed, courts may issue decisions affecting the Internet, existing but previously inapplicable or unenforced laws may be deemed to apply to the Internet or regulatory agencies may begin to rigorously enforce such formerly unenforced laws, or existing legal safe harbors may be narrowed, both by U.S. federal or state governments and by governments of foreign jurisdictions. These changes could affect:

the liability of online service providers for actions by customers, including fraud, illegal content, spam, phishing, libel and defamation, infringement of third-party intellectual property and other abusive conduct;

- other claims based on the nature and content of Internet materials;
- user privacy and security issues;
- consumer protection;
- characteristics and quality of services;
- cross-border e-commerce; and
- Ease of access by our users to our platform.

New privacy regulations have also been implemented in Turkey. Turkey's new Data Protection Law, regulates among others, the cross-border transfer of personal data, and applies different requirements that may impact the way we process Turkish users' data.

The adoption of any new laws or regulations, or the application or interpretation of existing laws or regulations to the Internet, could hinder growth in use of the Internet and online services generally, and decrease acceptance of the Internet and online services as a means of communications, e-commerce and advertising. In addition, such changes in laws could increase our costs of doing business, subject our business to increased liability for non-compliance or prevent us from delivering our services over the Internet or in specific jurisdictions, thereby materially harming our business and results of operations.

Existing federal, state and foreign laws and regulations governing Internet tracking software, the senders of commercial emails and text messages, and other consumer protection laws as well as standards of conduct implemented by private entities, could impact the use of our products and potentially subject us and our users to regulatory enforcement or private litigation.

Certain regulatory regimes, such as the Controlling the Assault of Non-Solicited Pornography and Marketing Act of 2003, or the CAN-SPAM Act, establish specific requirements for commercial email messages and specifies penalties for the transmission of commercial email messages that are intended to deceive the recipient as to source or content, and obligates, among other things, the sender of commercial emails to provide recipients with the ability to opt out of receiving future commercial emails from the sender. In addition, certain states and foreign jurisdictions prohibit sending unsolicited emails unless the recipient has provided the sender advance consent to receipt of such email. We may be found liable in the event we are deemed to have been non-compliant with any such requirements. Furthermore, the ability of our users to opt out from receiving commercial emails from us, may decrease the effectiveness of our email marketing strategy and may subject us to legal exposure.

Various private entities also attempt to regulate commercial solicitation via email. These entities often advocate standards of conduct or practice that significantly exceed current legal requirements and classify certain email solicitations that comply with current legal requirements as SPAM, which could lead the sender to be "blacklisted" by such private entities.

In addition, in recent years, U.S. and European lawmakers and regulators have expressed concern over the use of third-party cookies or web beacons for online behavioral advertising, and legislation adopted recently in the European Union requires informed consent for the placement of a cookie on a user's device. New and expanding "Do Not Track" regulations have recently been enacted or proposed that protect users' right to choose whether or not to be tracked online. These policies could have a significant impact on the operation of our products and increase the potential for litigation against us, which would harm our business.

Compliance with other consumer protection laws and regulations such as the Telephone Consumer Protection Act of 1991 (TCPA) meant to protect recipients of tele-marketing phone calls or text messages, FTC and Federal Restore Online Shoppers Confidence Act of 2010 (ROSCA) regulations, addressing subscription auto-renewal disclosure requirements, refund policy disclosure requirements, and other requirements relating to proper disclosure of our Terms of Use, could increase our costs of doing business or subject our business to increased liability for non-compliance, and could materially harm our business and results of operations. We may also potentially be subject to further legal exposure in the event our users are non-compliant with any of the above regulatory and industry standards vis-à-vis their customers.

Our business depends on our customers' continued and unimpeded access to the Internet and the development and maintenance of Internet infrastructure. Internet service providers may be able to block, degrade or charge for access to certain of our products, which could lead to additional expenses and the loss of customers.

Our services depend on the ability of our registered users to access the Internet. Currently, this access is provided by companies that have significant market power in the broadband and Internet access marketplace, including incumbent telephone companies, cable companies, mobile communications companies and government-owned service providers. Laws or regulations that adversely affect the growth, popularity or use of the Internet, including changes to laws or regulations impacting Internet neutrality, could decrease the demand for our products, increase our operating costs, require us to alter the manner in which we conduct our business and/or otherwise adversely affect our business. For example, the Federal Communications Commission, or the FCC, recently adopted an order repealing rules that prohibit Internet service providers ("ISPs") from blocking or throttling Internet traffic, and from engaging in practices that prioritize particular Internet content in exchange for payment (also known as "paid prioritization"). The order is not yet effective and has already been challenged in court, which could result in further changes to the governing law. There is also uncertainty around how the FCC's new framework, if upheld, and new oversight by the Federal Trade Commission ("FTC") will be applied. Depending on ongoing appellate proceedings and future action by the FCC and FTC, we could experience discriminatory or anti-competitive practices that could impede our growth, cause us to incur additional expense or otherwise negatively affect our business. In particular, the repeal of restrictions on paid prioritization could enable ISPs to impose higher fees and otherwise adversely impact our business. Internationally, government regulation concerning the Internet, and in particular, network neutrality, may be developing or non-existent. Within such a regulatory environment, we could experience discriminatory or anti-competitive practices that could impede both our and our customers' domestic and international growth, increase our costs or adversely affect our business.

Our relatively short operating history in a new and developing market might make it difficult to evaluate our current business and future prospects, and may increase the risk that we will not be successful.

We were founded in 2006 and the majority of our revenue growth has occurred since 2011. This history may not be long enough to effectively assess our future prospects or predict our future performance.

We also operate in a relatively new market, the development of which may be difficult to predict, and that may not develop as expected. We believe that the growth in our registered user base and revenues may indicate that our business strategy is successful, but you should consider our future prospects in light of the challenges and uncertainties that we face, including the fact that our business has grown rapidly and it may not be possible to discern fully the trends that we are subject to, that we operate in a relatively new and developing market, that elements of our business strategy remain subject to ongoing development, and that new competitors may enter our market and existing competitors are also growing their business, including through consolidation and mergers and extension of their marketing budgets.

We face potential liability and expense for legal claims based on the content published on our platform.

Our platform allows registered users to create and manage websites. At present, we do not require that our registered users post on their websites, or require their visitors to agree to, any terms of service, privacy policy, disclaimer or any other contractual documentation or policy. If our registered users do not post the appropriate documentation and policies on their websites and require their visitors' consent to be bound by the terms of such documentation and policies, or should our registered users fail to take steps necessary to enjoy the benefits of certain statutory safe harbors, such as those set forth in Section 512 of the United States Digital Millennium Copyright Act and Section 230 of the Communication Decency Act, then they may expose themselves to civil and criminal liability under applicable law, for example, where the visitors post information which is libelous, defamatory, in breach of regulation concerning unacceptable content or publications, or in breach of any third-party intellectual property rights or where our registered users or their suppliers fail to process personal data in accordance with applicable law. It is possible that we could also be subject to liability. Certain jurisdictions, including the United States and certain European countries, among others, have adopted laws relating to the liability of providers of online services for activities of their users and other third parties, including with respect to defamation, invasion of privacy and other torts, copyright and trademark infringement, and other theories based on the nature and content of the materials searched, the ads posted, or the content provided by users. Any court ruling or other governmental action that imposes liability on providers of online services for the activities of their users and other third parties could harm our business. In such circumstances we may also be subject to liability under applicable law in a way which may not be fully mitigated by the user terms of service we require our registered users to agree to. Any liability attributed to us could adversely affect our brand, reputation, our ability to expand our user base and our financial position. Further, our indemnity from our registered users may also not be fully effective as a matter of practice if any user does not have sufficient assets, insurance or other means to back that indemnity. In addition, rising concern about the use of the Internet for illegal conduct, such as the unauthorized dissemination of national security information, money laundering or supporting terrorist activities may in the future produce legislation or other governmental action that could require changes to our products, solutions or services, restrict or impose additional costs upon the conduct of our business or cause our registered users to abandon material aspects of our service. Any such adverse legal or regulatory developments could substantially harm our operating results and business.

Activities of registered users or the content of their websites could damage our reputation and brand, or harm our ability to expand our base of registered users and premium subscriptions, and our business and financial results.

Our reputation and brand may be negatively affected by the actions of registered users that are deemed to be hostile, offensive or inappropriate to other users or to the public, or by registered users acting under false or inauthentic identities or by registered users that are using our product to conduct illegal activities. This particularly applies to our registered users who do not have premium subscriptions and who therefore maintain the "Wix" logo on their websites. We do not monitor or review the appropriateness of the domain names our users register or the content of our registered users' websites, and we do not have control over the activities in which our registered users engage. While we have adopted policies regarding illegal or offensive use of our services by our registered users and retain authority to terminate domain name registrations and to take down websites that violate these policies, users could nonetheless engage in these activities. The safeguards we have in place may not be sufficient to avoid harm to our reputation and brand, especially if such hostile, offensive or inappropriate use was high profile, which could adversely affect our

ability to expand our registered user base, and our business and financial results.

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If we do not or cannot maintain the compatibility of our platform and solutions with changes and developments in third-party applications, or if the third-party applications that we offer fail to keep pace with competitors' offerings, demand for our solutions and platform could decline.

The attractiveness of our platform depends, in part, on our ability to integrate third-party applications which our registered users desire, into their websites, or develop and offer those applications independently. Third-party application providers may change the features of their applications and platforms or alter the terms governing the use of their applications and platforms in an adverse manner. Further, third-party application providers may refuse to partner with us, or limit or restrict our access to their applications and platforms. Such changes could functionally limit or terminate our ability to use these third-party applications and platforms with our platform, which could negatively impact our offerings and harm our business. Additionally, competitors may offer functionality which our registered users desire that offer better functionality than the third party applications integrated in our platform. If we fail to integrate our platform with new third-party applications that our registered users need for their websites or develop them independently, or adapt to the data transfer requirements of such third-party applications and platforms or any other requirements, we may not be able to offer the functionality that our registered users expect, which would negatively impact our offerings and, as a result, harm our business.

Because we recognize revenues from premium subscriptions over the term of an agreement, downturns or upturns in sales are not immediately reflected in full in our operating results.

We recognize revenues over the term of our contracts. As of the end of 2017, 82% of our premium subscriptions were one-year, two-year or three-year subscriptions and approximately 18% were monthly subscriptions. As a result, much of the revenue we report each quarter is the recognition of deferred revenue from premium subscriptions entered into during previous quarters. Consequently, a shortfall in demand for our solutions and services or a decline in new or renewed contracts in any one quarter may not significantly reduce our revenues for that quarter but could negatively affect our revenues in future quarters. Accordingly, the effect of significant downturns in new or renewed sales of our solutions and service offerings are not fully reflected in our results of operations until future periods.

Our business and prospects would be harmed if changes to technologies used in our solutions or new versions or upgrades of operating systems and Internet browsers adversely impact the process by which registered users interface with our platform.

The user interface for our platform is currently simple and straightforward, which we believe has helped us to expand our user base even among users with little technical expertise. In the future, operating system providers, such as Microsoft or Apple, or any other provider of Internet browsers, could introduce new features that would make it difficult to use our platform. In addition, Internet browsers for desktop or mobile devices could introduce new features, or change existing browser specifications such that they would be incompatible with our products and solutions, or prevent end users from accessing our registered users' sites. For example, operating systems or major Internet browsers, such as Firefox, Internet Explorer, Chrome or Safari, could become unstable or be incompatible with HTML5-based products and solutions. Any changes to technologies used in our solutions, including within operating systems or Internet browsers that make it difficult for registered users to access our platform or end-users to access our registered users' sites, may slow the growth of our user base, and materially adversely impact our business and prospects.

Our business will suffer if the small business market for our solutions proves less lucrative than projected or if we fail to effectively acquire and service small business users.

A majority of our premium subscriptions are from small businesses. Small businesses frequently have limited budgets and may choose to allocate resources to items other than our solutions, especially in times of economic uncertainty or recessions. We believe that the small business market is underserved, and we intend to continue to devote substantial resources to it. We aim to grow our revenues by adding new small business customers, selling additional services to existing small business customers and encouraging existing small business customers to renew their subscriptions to our premium solutions. If the small business market fails to be as lucrative as we project or we are unable to market and sell our services to small businesses effectively, our ability to grow our revenues quickly and become profitable will be harmed.

We are subject to trade and economic sanctions and export laws that may govern or restrict our business and we, and our directors and officers, may be subject to fines or other penalties for non-compliance with those laws.

#### U.S. Laws and Regulations

We are subject to U.S. laws and regulations that may govern or restrict our business and activities in certain countries and with certain persons, including the trade and economic sanctions regulations administered by the U.S. Treasury Department's Office of Foreign Assets Control, or OFAC, and the export administration regulations administered by the U.S. Commerce Department's Bureau of Industry and Security, or BIS.

In the course of an internal review in early 2013, we determined that we had 16 premium subscriptions, out of a total of approximately 583,000 premium subscriptions, with geographic internet protocols, or GEOIP, addresses in Cuba, Iran, North Korea, North Sudan or Syria, or U.S. Sanctioned Countries, or that had otherwise provided personal information indicating that they may be located in U.S. Sanctioned Countries. As part of a subsequent internal review, we also determined that we had 32,600 registered users, or less than 0.1% of our total user base of approximately 33 million as measured as of April 30, 2013, with GEOIP addresses in U.S. Sanctioned Countries.

In May 2013, we made a voluntary self-disclosure to OFAC and BIS. We cannot predict if and when OFAC and BIS will complete their respective reviews and determinations as to whether any violation of relevant U.S. sanctions or export laws occurred or is ongoing. In case of an apparent violation, OFAC and/or BIS could decide not to impose penalties but issue only a warning or cautionary letter. However, if OFAC or BIS determines that we have violated applicable regulations, we may face civil and/or criminal penalties and may also suffer reputational harm, any of which could have a material adverse effect on our business and financial results.

We have undertaken a number of remedial measures, including terminating the user accounts and the premium subscriptions that may have been from a U.S. Sanctioned Country, and blocking the ability of existing and new registered users—with or without a premium subscription—that have a GEOIP address in a U.S. Sanctioned Country to access our cloud-based software or services. We have also since instituted new daily screening practices and updated our systems to prevent users from U.S. Sanctioned Countries entering billing information with an address in that location.



With respect to our subsidiary DeviantArt, Inc., prior to our acquisition of DeviantArt in February 2017, DeviantArt initiated a comprehensive investigation, with the assistance of outside counsel, of its compliance with OFAC regulations during the prior six years. As a result of this investigation, in July 2017, DeviantArt made a voluntary self-disclosure to OFAC of potential violations of sanctions regulations. The disclosure related to DeviantArt's determination that it had (1) users who had a GEOIP address of a U.S. Sanctioned Country; (2) users who self-identified as being from a Sanctioned Country; or (3) users who self-identified as being from a Sanctioned Country, and had either a GEOIP address in a Sanctioned Country, or had a Sanctioned Country as part of an address on file. Because most of the activity on the DeviantArt platform involves the transmission and sale of information and informational materials, DeviantArt has asserted that many of the transactions that could have constituted potential OFAC violations were exempt under the relevant statute and under OFAC general licenses. In February 2018, OFAC replied with follow up questions regarding the transactions described in the disclosure, and DeviantArt provided detailed responses. On March 6, 2018, OFAC sent DeviantArt a Cautionary Letter, which represents a final enforcement response to the potential violations, but does not constitute a final OFAC determination as to whether violations occurred.

DeviantArt has undertaken a number of remedial measures to prevent similar occurrences, including disabling commercial and/or transactional functionalities of the DeviantArt platform within the user accounts that have a GEOIP address in a U.S. Sanctioned Country. DeviantArt has also since instituted new daily screening practices and updated its systems to prevent users from U.S. Sanctioned Countries entering billing information with an address in that location.

#### Israeli Laws and Regulations

The Israeli Trading with the Enemy Ordinance—1939, or the Ordinance, prohibits any Israeli person from trading goods with enemy countries or with the residents of enemy countries. The Israeli Ministry of Finance, which is responsible for implementing the Ordinance, has currently determined enemy countries to be Iran, Lebanon and Syria, or Israeli Sanctioned Countries. The Ordinance was enacted in 1939 and does not expressly address online services. We therefore cannot state with certainty how the provisions of the Ordinance apply to the type of services that we provide.

We voluntarily approached the Israeli Ministry of Finance in September 2013 and asked for its formal position regarding the applicability of the Ordinance to the type of services that we provide. We do not know the extent to which the Ministry of Finance will want to have further discussions with us, the timing of those discussions or the ultimate outcome of their deliberations. Although the Ordinance allows Israeli persons to apply for a permit to trade with Israeli Sanctioned Countries or their residents, we are not aware of a permit being granted or denied in the past to a person providing the type of services that we provide.

Lebanon is the only Israeli Sanctioned Country that is not also a U.S. Sanctioned Country. We have ceased providing services to users with a GEOIP address in a U.S. Sanctioned Country. The number of registered users and premium subscribers that we have in Lebanon is not material to our business. However, if we stop providing services in Lebanon, it may decrease the number of our current and future subscribers from other countries, particularly in the Middle East, who may cease using our services in protest to us blocking accounts in Israeli Sanctioned Countries.

In addition, if it is determined by a competent court that sanctions under the Ordinance cover the type of services that we provide, we, our officers and employees may be subject to criminal and/or civil actions. We believe that our initiation of voluntary discussions with the Israeli Ministry of Finance may reduce such exposure, but any liability to which we are subject to could adversely affect our personnel, brand and reputation.

The future growth of our business depends in significant part on increasing our international user base.

As our level of penetration in certain of our traditional markets increases, we are looking to expand our presence in new markets, including in emerging countries. As a result, we are in the process of localizing our products in numerous markets, languages and currencies, expanding our systems to accept payments in forms that are common in various target markets and tailoring our customer support, to provide our users a local experience and cater for their specific needs. We intend to continue our international expansion efforts. To achieve our goals, we must continue to hire and train experienced personnel to staff and manage our international expansion. Our international expansion efforts may be slow or unsuccessful to the extent that we experience difficulties in recruiting, training, managing and retaining qualified personnel with international experience, language skills and cultural competencies in the geographic markets we target. In addition, the expansion of our existing international operations and entry into additional international markets has required and will continue to require significant management attention and financial resources. We may also face pressure to lower our prices in order to compete in emerging markets, which could adversely affect revenue derived from our international operations. These and other factors associated with our international operations could impair our growth prospects and adversely affect our business, operating results and financial condition.

If we are unable to attract more tech savvy individuals, for which we have developed more complex solutions and applications, our business, growth prospects and operating results could be adversely affected.

Our business has been focused in the past few years on serving individuals who are thinking about starting a business, to small or medium sized businesses and ventures that are up and running, but need help growing and expanding their digital capabilities. Some of our new developed products are suited for more technically skilled individuals or web developers, such as Wix Code which we launched in July 2017, that enables our users to build advanced and content-rich websites and applications using their advanced development capabilities. If we are unable to increase sales of our products to more tech savvy individuals, our business, growth prospects and operating results may be adversely affected.

We may be unable to obtain, maintain and protect our intellectual property rights and proprietary information or prevent third parties from making unauthorized use of our technology.

Our intellectual property rights are important to our business. We rely on a combination of confidentiality clauses, trade secrets, copyrights and trademarks to protect our intellectual property and know-how. In addition, we have filed a number of applications for patents and copyrights to protect our technologies. However, the steps we take to protect our intellectual property may be inadequate. We will not be able to protect our intellectual property if we are unable to enforce our rights or if we do not detect unauthorized use of our intellectual property. Despite our precautions, it may be possible for unauthorized third parties to copy our products and use information that we regard as proprietary to create solutions and services that compete with ours. Some license provisions protecting against unauthorized use, copying, transfer and disclosure of our solutions may be unenforceable under the laws of certain jurisdictions and foreign countries.

We enter into confidentiality and invention assignment agreements with our employees and consultants and enter into confidentiality agreements with the parties with whom we have strategic relationships and business alliances. No assurance can be given that these agreements will be effective in controlling access to our proprietary information. Further, these agreements do not prevent our competitors from independently developing technologies that are substantially equivalent or superior to our solutions. Additionally, we may from time to time be subject to opposition or similar proceedings with respect to applications for registrations of our intellectual property, including but not limited to our trademarks, copyright works and patent applications. While we aim to acquire adequate protection of our brand through trademark registrations in key markets, occasionally third parties may have already registered or otherwise acquired rights to identical or similar marks for solutions that also address the software market. Additionally, the process of seeking patent protection can be lengthy and expensive. Any of our pending or future patent, copyright or trademark applications, whether or not challenged, may not be issued with the scope of the claims we seek, if at all. We are unable to guarantee that additional patents, copyrights or trademarks will issue from pending or future applications or that, if patents, copyrights or trademarks issue, they will not be challenged, invalidated or circumvented, or that the rights granted under the patents, copyrights or trademarks will provide us with meaningful protection or any commercial advantage. We rely on our brand and trademarks to identify our solutions to our registered users and to differentiate our solutions from those of our competitors. If we are unable to adequately protect our trademarks, third parties may use our brand names or trademarks similar to ours in a manner that may cause confusion to our registered users or confusion in the market, or dilute our brand names or trademarks, which could decrease the value of our brand.

From time to time, we may discover that third parties are infringing, misappropriating or otherwise violating our intellectual property rights. However, policing unauthorized use of our intellectual property and misappropriation of our technology is difficult and we may therefore not always be aware of such unauthorized use or misappropriation. Despite our efforts to protect our intellectual property rights, unauthorized third parties may attempt to use, copy or otherwise obtain and market or distribute our intellectual property rights or technology or otherwise develop solutions with the same or similar functionality as our solutions. If competitors infringe, misappropriate or otherwise misuse our intellectual property rights and we are not adequately protected, or if such competitors are able to develop solutions with the same or similar functionality as ours without infringing our intellectual property, our competitive position and results of operations could be harmed and our legal costs could increase.

We have in the past been subject to claims by third parties of intellectual property infringement and may in the future become subject to similar or other claims that, regardless of merit, could result in litigation and materially adversely affect our business, results of operations or financial condition.

There can be no assurance that third parties will not assert that our solutions, services and intellectual property infringe, misappropriate or otherwise violate their intellectual property or other proprietary rights. Such claims may be made by competitors seeking to obtain a competitive advantage or by other parties. Additionally, in recent years, non-practicing entities, or NPEs, have begun purchasing intellectual property assets for the purpose of making claims of infringement and attempting to extract settlements from companies like ours. We entered into settlement agreements in the past with two NPEs with respect to patent infringement claims. We have also licensed patents from third parties in areas that are related to our technology.

Any such claims, regardless of merit, that result in litigation, could result in substantial expenses, divert the attention of management, cause significant delays in introducing new solutions or services, materially disrupt the conduct of our business and have a material and adverse effect on our brand, reputation, business, financial condition and results of operations. As a consequence of such claims, we could be required to pay substantial damages, develop non-infringing technology, enter into royalty-bearing licensing agreements, stop selling or marketing some or all of our solutions or services or re-brand our solutions or services. If it appears necessary, we may seek to license intellectual property that we are alleged to infringe, potentially even if we believe such claims to be without merit. If required licenses cannot be obtained, or if existing licenses are not renewed, litigation could result. Litigation is inherently uncertain and any adverse decision could result in a loss of our proprietary rights, subject us to significant

liabilities, require us to seek licenses for alternative technologies from third parties and otherwise negatively affect our business.

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Our platform contains open source software, which may pose particular risks to our proprietary software and solutions.

We use open source software in connection with our software development. From time to time, companies that use open source software have faced claims challenging the use of open source software and/or compliance with open source license terms, and we may be subject to such claims in the future. Some open source licenses require users who distribute software containing open source to make available all or part of such software, which in some circumstances could include valuable proprietary code of the user. While we monitor the use of open source software and try to ensure that none is used in a manner that would require us to disclose our proprietary source code or that would otherwise breach the terms of an open source agreement, it is our view that the majority of our services are not considered as distributed software, since no installation of our software is necessary and editing and design platform is accessible solely through the “cloud.” Nevertheless, part of our services, such as our mobile application for example, are considered distributed services. In those instances, if a specific open source license requires it, we might be obligated to disclose part of our proprietary code. Any requirement to disclose our proprietary source code or pay damages for breach of contract could be harmful to our business, results of operations or financial condition, and could help our competitors develop products and services that are similar to or better than ours.

The number of our registered users may be higher than the number of actual users, depending on the level of engagement of a particular user following registration.

We use the definition “registered user” to mean the number of unique email addresses registered on Wix.com. The number of registered users as we define it may be higher than the actual number of individual users, because some users have multiple registrations and others may have registered under different or fictitious names. Furthermore, the number of websites created may differ from the number of registered users since a registered user can create multiple websites or not create a website at all. The length of time that registered users take, following registration, to design and publish a website varies significantly from hours to years. Some registered users may never publish a website, others may publish several websites. We consider the rate at which registered users from a particular period generate premium subscriptions to be material to our business. For example, in the fourth quarter of 2017, 38% of our premium subscriptions were purchased by users that registered with us in the same quarter and the remaining 62% were from users who registered in earlier quarters. Nevertheless, if the number of our registered users is materially inconsistent with the number of our actual individual users, our user base, which we believe is important to the growth of our premium subscriptions, may be overstated. If that is the case, our business may not grow as fast as we expect, and our financial results and business prospects may be harmed.

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

We enter into assignment of invention agreements with our employees pursuant to which such individuals agree to assign to us all rights to any inventions created in the scope of their employment or engagement with us. Under the Israeli Patent Law, inventions conceived by an employee or a person deemed to be an employee during the scope of their employment with a company are regarded as “service inventions,” which belong to the employer, absent a specific agreement between employee and employer giving the employee service invention rights. The Israeli Patents Law also provides that in the absence of an agreement in which the employee (or a person deemed to be an employee) waived the right to remuneration for a service invention, the employee is entitled to refer the matter to the Israeli Compensation and Royalties Committee, a body constituted under the Israeli Patents Law, which will determine whether the employee is entitled to such remuneration. The Israeli Patents Law provides general guidelines for calculating this Committee-enforced remuneration, that are yet to be applied by the Committee in its rulings. Although our contractors or employees have agreed to assign to us service invention rights, we may face claims challenging such agreements and demanding remuneration in consideration for assigned inventions. As a consequence of such claims, we could be required to pay additional remuneration or royalties to our contractors or employees, or be forced to litigate such claims, which could negatively affect our business.



U.S. states and/or other jurisdictions in which we conduct our business may seek to impose state and local business taxes and sales/use taxes and current value added taxes on Internet sales in Europe and elsewhere and the tax policies and regulations imposed by other jurisdictions in which we operate may change, all of which may affect our tax rates and increase our tax liabilities.

There is a risk that U.S. states could assert that we or our non-U.S. subsidiaries are liable for U.S. state and local business activity taxes based upon income or gross receipts or for the collection of U.S. local sales/use taxes. This risk exists regardless of whether we and our non-U.S. subsidiaries are subject to U.S. federal income tax. States are becoming increasingly aggressive in asserting a nexus for business activity tax purposes and imposing sales/use taxes on products and services provided over the Internet. We and our non-U.S. subsidiaries could be subject to U.S. state and local taxation if a state tax authority asserts that our activities or the activities of our non-U.S. subsidiaries give rise to a nexus. We and our non-U.S. subsidiaries could also be liable for the collection of U.S. state and local sales/use taxes if a state tax authority asserts that distribution of our products over the Internet is subject to sales/use taxes. Additionally, pending legislation in the U.S. Congress, if enacted, could grant states additional authority to collect sales/use taxes on the sale of our premium subscriptions over the Internet. Further, if a state tax authority asserts that distribution of our products or services is subject to such sales/use taxes, our premium subscribers could also be subjected to sales/use taxes, which may decrease the likelihood that such registered users would purchase or continue to renew their premium subscriptions. Additionally, sales of our solutions subject to value-added tax, or VAT, at the applicable rate in each jurisdiction, may increase and cause either our prices to increase or our collections and revenues to decline. New obligations to collect or pay taxes of any kind could substantially increase our cost of doing business. Furthermore, the base erosion and profit shifting, or BEPS, initiative undertaken by the Organization for Economic Cooperation and Development, or OECD, which contemplates changes to numerous international tax principles, as well as national tax incentives, may have adverse consequences on our tax liabilities. It is difficult to assess to what extent these changes may be implemented in the jurisdictions in which we conduct our business or may impact the way in which we conduct our business or our effective tax rate, due to the unpredictability and interdependency of these potential changes. We therefore cannot predict at this stage the magnitude of the effect of such rules on our financial results.

We may need to raise additional funds to pursue our growth strategy or continue our operations, and we may be unable to raise capital when needed or on acceptable terms.

From time to time we may seek additional equity or debt financing to fund our growth, develop new solutions and services or make acquisitions or other investments. Our business plans may change, general economic, financial or political conditions in our markets may change, or other circumstances may arise, that have a material adverse effect on our cash flow and the anticipated cash needs of our business. Any of these events or circumstances could result in significant additional funding needs, requiring us to raise additional capital. We cannot predict the timing or amount of any such capital requirements at this time. If financing is not available on satisfactory terms, or at all, we may be unable to expand our business or to develop new business at the rate desired and our results of operations may suffer.

Due to the global nature of our business, we could be adversely affected by violations of anti-bribery laws.

The global nature of our business creates various domestic and local regulatory challenges. The U.S. Foreign Corrupt Practices Act of 1977, as amended, or the FCPA, the U.K. Bribery Act 2010, and the U.K. Bribery Act, and similar anti-bribery laws in other jurisdictions generally prohibit companies and their intermediaries from making improper payments to foreign government officials and other persons for the purpose of obtaining or retaining business. In addition, companies are required to maintain records that accurately and fairly represent their transactions and have an adequate system of internal accounting controls. We operate in areas of the world that experience corruption by government officials to some degree and, in certain circumstances, compliance with anti-bribery laws may conflict with local customs and practices. We operate in several countries and sell our products to customers around the world, which geographically stretches our compliance obligations. In addition, changes in laws could result in increased regulatory requirements and compliance costs which could adversely affect our business, financial condition and results of operations. We cannot assure that our employees or other agents will not engage in prohibited conduct and render us responsible under the FCPA, the U.K. Bribery Act or any similar anti-bribery laws in other jurisdictions. If we are found to be in violation of the FCPA, the U.K. Bribery Act or other anti-bribery laws (either due to acts or inadvertence of our employees, or due to the acts or inadvertence of others), we could suffer criminal or civil penalties or other sanctions, which could have a material adverse effect on our business.

#### Risks Related to Our Ordinary Shares

Our share price may be volatile, and you may lose all or part of your investment.

Our ordinary shares were first offered publicly in our initial public offering, or IPO, in November 2013, at a price of \$16.50 per share, and our ordinary shares have subsequently traded as high as \$87.65 per share and as low as \$14.28 per share through March 28, 2018. During 2017, our ordinary shares traded as high as \$86.15 per share and as low as \$44.45 per share. In addition, the market price of our ordinary shares could be highly volatile and may fluctuate substantially as a result of many factors, some of which are beyond our control, including, but not limited to:

- actual or anticipated fluctuations in our and our competitors' results of operations;
- variance in our and our competitors' financial performance from the expectations of market analysts;
- announcements by us or our competitors or other global corporations of significant business developments, changes in service provider relationships, acquisitions or expansion plans;
- announcements of technological innovations by us or our competitors;
- changes in the prices of our solutions;
- developments concerning intellectual property rights, including our involvement in litigation;
- our sale of ordinary shares or other securities in the future, or such sales by our significant shareholders;
- market conditions in our industry;
- changes in key personnel;
- the trading volume of our ordinary shares;



- changes in the estimation of the future size and growth rate of our markets;
- general economic and market conditions; and
- our failure to meet our financial guidance or any component thereof in any given quarter or year (or failure by our competitors to meet their own guidance).

Many of our employees may expect to receive significant proceeds from sales of our equity in the public markets after their equity compensation has fully vested. A drop in share price due to market fluctuations may reduce their motivation to continue to work for us. If we are not able to effectively retain employees, our ability to achieve our strategic objectives will be adversely impacted, and our business will be harmed.

In addition, the stock markets have experienced extreme price and volume fluctuations. Broad market and industry factors may materially harm the market price of our ordinary shares, regardless of our operating performance. In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been instituted against that company. If we were involved in any similar litigation we could incur substantial costs and our management's attention and resources could be diverted.

If securities or industry analysts cease to publish research or publish inaccurate or unfavorable research about our business, our share price and trading volume could decline.

The trading price for our ordinary shares is affected by any research or reports that securities or industry analysts publish about us or our business. If one or more of the analysts who currently cover us or our business publish inaccurate or unfavorable research about us or our business, and in particular, if they downgrade their evaluations of our ordinary shares, the price of our ordinary shares would likely decline. If one or more of these analysts cease coverage of our company, we could lose visibility in the market for our ordinary shares, which in turn could cause our share price to decline.

A small number of significant beneficial owners of our shares acting together have a significant influence over matters requiring shareholder approval, which could delay or prevent a change of control.

The largest beneficial owners of our shares, beneficially owned a significant percentage of our ordinary shares, See "Item 7.A. Major Shareholders." One of these shareholders also has individuals affiliated with it serving on our board of directors. Our largest shareholders, individually or if they all adopt a similar position on a particular issue acting in concert, could exercise significant influence over our operations and business strategy and will have sufficient voting power to influence the outcome of matters requiring shareholder approval. These matters may include:

- the composition of our board of directors which has the authority to direct our business and to appoint and remove our officers;
- approving or rejecting a merger, consolidation or other business combination;
- raising future capital; and
- amending our articles of association which govern the rights attached to our ordinary shares.

This concentration of ownership of our ordinary shares could delay or prevent proxy contests, mergers, tender offers, open-market purchase programs or other purchases of our ordinary shares that might otherwise give you the opportunity to realize a premium over the then-prevailing market price of our ordinary shares. This concentration of ownership may also adversely affect our share price.



Future sales of our ordinary shares by our principal shareholders or directors and officers, or the perception that such sales could occur, may cause the market price of our ordinary shares to decline.

If our existing shareholders, particularly our largest shareholders, our directors, their affiliates, or our executive officers, sell a substantial number of our ordinary shares in the public market, the market price of our ordinary shares could decrease significantly. This includes sales by our five largest shareholders who, as of February 28, 2018 beneficially owned 43.0% of our ordinary shares. We cannot predict what effect, if any, future sales of our ordinary shares, or the availability of our ordinary shares for future sale, will have on the market price of our ordinary shares. Sales of substantial amounts of our ordinary shares in the public marketplace by us or these shareholders, including our shareholder Mangrove Capital Partners, which has the right to cause us to register its shares for resale with the Securities and Exchange Commission, or the perception that such sales could occur, could adversely affect the market price of our ordinary shares, may make it more difficult for investors to sell ordinary shares at a time and price which such investors deem appropriate, and could impair our future ability to obtain capital, especially through an offering of equity securities.

As of February 28, 2018, the holders of 5,025,656 of our ordinary shares were entitled to require that we register their shares under the Securities Act for resale into the public markets. All shares sold pursuant to an offering covered by such registration statement will be freely transferable. See “Item 7.B. Related Party Transaction—Registration Rights.” Sales by us or by our shareholders of a substantial number of ordinary shares in the public market, or the perception that these sales might occur, could cause the market price of our ordinary shares to decline or could impair our ability to raise capital through a future sale of, or pay for acquisitions using, our equity securities.

In addition to these registration rights, as of February 28, 2018, 11,111,587 ordinary shares are subject to outstanding option and restricted share unit, or RSU, awards granted to employees and office holders under our share incentive plans, including 5,179,326 ordinary shares issuable under currently exercisable share options. Upon issuance, such shares may be freely sold in the public market, except for shares held by affiliates who have certain restrictions on their ability to sell.

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

As a foreign private issuer whose shares are listed on the NASDAQ Global Market, we are permitted to follow certain home country corporate governance practices instead of certain requirements of the rules of NASDAQ. As permitted under the Israeli Companies Law, 5759-1999, or the Companies Law, our articles of association provide that the quorum for any meeting of shareholders shall be the presence of at least two shareholders present in person, by proxy or by a voting instrument, who hold at least 25% of the voting power of our shares instead of 33<sup>1</sup>/<sub>3</sub>% of our issued share capital. We may in the future elect to follow home country practice in Israel with regard to matters such as the formation of compensation, nominating and corporate governance committees, separate executive sessions of independent directors and non-management directors and the requirement to obtain shareholder approval for certain dilutive events (such as for the establishment or amendment of certain equity-based compensation plans, issuances that will result in a change of control of the company, certain transactions other than a public offering involving issuances of a 20% or more interest in the company and certain acquisitions of the stock or assets of another company). Accordingly, our shareholders may not be afforded the same protection as provided under NASDAQ corporate governance rules. Following our home country governance practices as opposed to the requirements that would otherwise apply to a United States company listed on NASDAQ may provide less protection than is accorded to investors of domestic issuers. See “Item 16.G. Corporate Governance.”

As a foreign private issuer we are not subject to U.S. proxy rules or Regulation FD and are exempt from filing certain Exchange Act reports.

As a foreign private issuer, we are exempt from the rules and regulations under the United States Securities Exchange Act of 1934, as amended, or the Exchange Act, related to the furnishing and content of proxy statements, and our officers, directors, and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. We are also exempt from Regulation FD, which prohibits issuers from making selective disclosures of material non-public information. In addition, we are not required under the Exchange Act to file annual, quarterly and current reports and financial statements with the Securities and Exchange Commission, or SEC, as frequently or as promptly as domestic companies whose securities are registered under the Exchange Act.

However, we would lose our foreign private issuer status if a majority of our directors or executive officers are U.S. citizens or residents and we fail to meet additional requirements necessary to avoid loss of foreign private issuer status. Although we have elected to comply with certain U.S. regulatory provisions, our loss of foreign private issuer status would make such provisions mandatory. The regulatory and compliance costs to us under U.S. securities laws as a U.S. domestic issuer may be significantly higher. If we are not a foreign private issuer, we will be required to file periodic reports and registration statements on U.S. domestic issuer forms with the SEC, which are more detailed and extensive than the forms available to a foreign private issuer. We may also be required to modify certain of our policies to comply with good governance practices associated with U.S. domestic issuers. Such conversion and modifications will involve additional costs. In addition, we may lose our ability to rely upon exemptions from certain corporate governance requirements on U.S. stock exchanges that are available to foreign private issuers.

If a United States person is treated as owning at least 10% of our shares, such holder may be subject to adverse U.S. federal income tax consequences.

If a United States person is treated as owning (directly, indirectly or constructively) at least 10% of the value or voting power of our shares, such person may be treated as a “United States shareholder” with respect to each “controlled foreign corporation” in our group (if any). If United States shareholders own (or are treated as owning) more than 50% of the value or voting power of our shares, we would (and our non-U.S. subsidiaries could) be treated as controlled foreign corporations. In addition, if our group includes one or more U.S. subsidiaries, certain of our non-U.S. subsidiaries could be treated as controlled foreign corporations (regardless of whether we are treated as a controlled foreign corporation). A United States shareholder of a controlled foreign corporation may be required to report annually and include in its U.S. taxable income its pro rata share of “Subpart F income,” “global intangible low-taxed income” and investments in U.S. property by controlled foreign corporations, regardless of whether we make any distributions. An individual that is a United States shareholder with respect to a controlled foreign corporation generally would not be allowed certain tax deductions or foreign tax credits that would be allowed to a United States shareholder that is a U.S. corporation. Failure to comply with these reporting obligations may subject you to significant monetary penalties and may prevent the statute of limitations with respect to your U.S. federal income tax return for the year for which reporting was due from starting. We cannot provide any assurances that we will assist investors in determining whether any of our non-U.S. subsidiaries are treated as a controlled foreign corporation or whether such investor is treated as a United States shareholder with respect to any of such controlled foreign corporations or furnish to any United States shareholders information that may be necessary to comply with the aforementioned reporting and tax paying obligations. Certain of our shareholders may be United States shareholders. The determination of controlled foreign corporation status is complex and includes attribution rules, the application of which is not entirely certain. A United States investor should consult its advisors regarding the potential application of these rules to an investment in our ordinary shares.

Our U.S. shareholders may suffer adverse tax consequences if we are characterized as a passive foreign investment company.

Generally, if for any taxable year 75% or more of our gross income is passive income, or at least 50% of the average quarterly value of our assets (which may be determined in part by the market value of our ordinary shares, which is subject to change) are held for the production of, or produce, passive income, we would be characterized as a passive foreign investment company, or PFIC, for United States federal income tax purposes. Based on the composition of our income and the composition and estimated fair market values of our assets, we do not believe we were classified as a PFIC for the taxable year ending December 31, 2017. However, because PFIC status is determined as of the end of the taxable year and depends on a number of factors, including the value of a corporation's assets and the amount and type of its gross income, it is not possible to determine whether we will be characterized as a PFIC for the 2018 taxable year until after the close of the year. There can be no assurance that we will not be considered a PFIC for any taxable year. Furthermore, because the value of our gross assets is likely to be determined in large part by reference to our market capitalization (assuming we are treated as publicly traded for purposes of the PFIC rules), a decline in the value of our ordinary shares may result in our becoming a PFIC. If we are characterized as a PFIC, our United States shareholders may suffer adverse tax consequences, including having gains realized on the sale of our ordinary shares treated as ordinary income, rather than a capital gain, the loss of the preferential rate applicable to dividends received on our ordinary shares by individuals who are United States holders, and having interest charges apply to distributions by us and the proceeds of share sales. If we are characterized as a PFIC, certain elections may be available that would alleviate some of the adverse consequences of PFIC status and result in an alternative treatment (such as mark-to-market treatment) of our ordinary shares; however, we do not intend to provide the information necessary for U.S. holders to make qualified electing fund elections if we are classified as a PFIC. See "Item 10.E. Additional Information—Taxation."

Provisions of Israeli law and our articles of association may delay, prevent or make undesirable an acquisition of all or a significant portion of our shares or assets.

Provisions of Israeli law and our articles of association could have the effect of delaying or preventing a change in control and may make it more difficult for a third-party to acquire us or our shareholders to elect different individuals to our board of directors, even if doing so would be considered to be beneficial by some of our shareholders, and may limit the price that investors may be willing to pay in the future for our ordinary shares. Among other things:

· Israeli corporate law regulates mergers and requires that a tender offer be effected when more than a specified percentage of shares in a company are purchased;

· Israeli corporate law does not provide for shareholder action by written consent unless such consent is unanimous, thereby requiring all shareholder actions to be taken at a general meeting of shareholders;

· our articles of association divide our directors into three classes each of which is elected once every three years;

· our articles of association generally require a vote of the holders of a majority of our outstanding ordinary shares entitled to vote at a general meeting of shareholders and voting in person or by proxy at the meeting, and the amendment of a limited number of provisions, such as the provision dividing our directors into three classes, requires a vote of the holders of  $66\frac{2}{3}\%$  of our outstanding ordinary shares entitled to vote at a general meeting and voting in person or by proxy at the meeting;

our articles of association do not permit a director to be removed except by a vote of the holders of at least 66<sup>2</sup>/<sub>3</sub>% of our outstanding shares entitled to vote at a general meeting of shareholders and voting in person or by proxy at the meeting;

our articles of association require that director vacancies may only be filled by our board of directors; and

our articles of association prevent “business combinations” with “interested shareholders” for a period of three years after the date of the transaction in which the person became an interested shareholder, unless the business combination is approved in accordance with our articles of association by a general meeting of our shareholders or satisfies other requirements specified in our articles of association.

Further, Israeli tax considerations may make potential transactions undesirable to us or to some of our shareholders whose country of residence does not have a tax treaty with Israel granting tax relief to such shareholders from Israeli tax. With respect to mergers, Israeli tax law allows for tax deferral in certain circumstances but makes the deferral contingent on the fulfillment of numerous conditions, including a holding period of two years from the date of the transaction during which certain sales and dispositions of shares of the participating companies are restricted. Moreover, with respect to certain share swap transactions, the tax deferral is limited in time, and when such time expires, the tax becomes payable even if no actual disposition of the shares has occurred. See “Item 10.B. Additional Information—Memorandum and Articles of Association.”

If we are unable to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 (the “Sarbanes-Oxley Act”), or if our internal control over financial reporting is not effective, investors may lose confidence in the accuracy and the completeness of our financial reports, the reliability of our financial statements may be questioned and our share price may suffer.

The Sarbanes-Oxley Act requires, among other things, that we maintain effective internal control over financial reporting and disclosure controls and procedures. Pursuant to Section 404(a) of the Sarbanes-Oxley Act, we are required to furnish a report by management on the effectiveness of our internal control over financial reporting, and since we are no longer an emerging growth company and qualify as a large accelerated filer, we must, pursuant to Section 404(b), include an auditor attestation on our internal control over financial reporting.

To maintain the effectiveness of our disclosure controls and procedures and our internal control over financial reporting, we expect that we will need to continue enhancing existing, and implement new, financial reporting and management systems, procedures and controls to manage our business effectively and support our growth in the future. The process of evaluating our internal control over financial reporting will continue to require an investment of substantial time and resources, including by our Chief Financial Officer and other members of our senior management. The determination and any remedial actions required could divert internal resources and take a significant amount of time and effort to complete and could result in us incurring additional costs that we did not anticipate, including the hiring of outside consultants. Additionally, as part of management assessments of the effectiveness of our internal control over financial reporting, our management may conclude that our internal control over financial reporting is not effective due to our failure to cure any identified material weakness or otherwise, which would require us to employ remedial actions to implement effective controls. If we identify material weaknesses in our internal control over financial reporting, if we are unable to comply with the requirements of Section 404 in a timely manner or to assert that our internal control over financial reporting is effective, or if our independent registered public accounting firm is unable to express an opinion or issues an adverse opinion in its attestation as to the effectiveness of our internal control over financial reporting required by Section 404(b), investors may lose confidence in the accuracy and completeness of our financial reports and the trading price of our ordinary shares could be negatively affected. We could also become subject to investigations by the stock exchange on which our securities are listed, the SEC or other regulatory authorities, which could require additional financial and management resources.



Irrespective of compliance with Section 404, any failure of our internal controls could have a material adverse effect on our stated results of operations and harm our reputation. As a result, we may experience higher than anticipated operating expenses, as well as higher independent auditor fees during and after the implementation of these changes. If we are unable to implement any of the required changes to our internal control over financial reporting effectively or efficiently, it could adversely affect our operations, financial reporting and/or results of operations and could result in an adverse opinion on internal controls from our independent auditors. Further, if our internal control over financial reporting is not effective, the reliability of our financial statements may be questioned and our share price may suffer.

As a public company we may become subject to further compliance obligations, which may strain our resources and divert management's attention.

Changing laws, regulations and standards, in the United States or Israel, relating to corporate governance and public disclosure and other matters, may be implemented in the future, which may increase our legal and financial compliance costs, make some activities more time consuming and divert management's time and attention from revenue-generating activities to compliance activities. If our efforts to comply with new laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to practice, regulatory authorities may initiate legal proceedings against us and our business may be harmed. Being a publicly traded company in the United States and being subject to U.S. rules and regulations make it more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. These factors could also make it more difficult for us to attract and retain qualified members of our board of directors, particularly to serve on our audit committee, and qualified executive officers.

#### Risks Relating to Our Incorporation and Location in Israel

Conditions in Israel could adversely affect our business.

We are incorporated under Israeli law and our principal executive offices are located in Israel. Accordingly, political, economic and military conditions in Israel directly affect our business. Since the State of Israel was established in 1948, a number of armed conflicts have occurred between Israel and its Arab neighbors. In recent years, these have included hostilities between Israel and Hezbollah in Lebanon and Hamas in the Gaza strip, both of which resulted in rockets being fired into Israel, causing casualties and disruption of economic activities. Riots and uprisings in several countries in the Middle East and neighboring regions as well as armed conflicts, including by ISIS, have led to severe political instability in several neighboring states and a decline in the regional security situation. In addition, Israel faces threats from more distant neighbors, in particular, Iran. Our commercial insurance does not cover losses that may occur as a result of events associated with the security situation in the Middle East, such as damages to our facilities resulting in disruption of our operations. Although the Israeli government currently covers the reinstatement value of direct damages that are caused by terrorist attacks or acts of war, we cannot assure you that this government coverage will be maintained or will be adequate in the event we submit a claim.

A number of countries, principally in the Middle East, still restrict doing business with Israel and Israeli companies, and additional countries may impose restrictions on doing business with Israel and Israeli companies if hostilities in Israel or political instability in the region continue or increase. These restrictions may limit materially our ability to distribute our products to users in these countries or establish distributor relationships with companies operating in these regions. In addition, there have been increased efforts by activists to cause companies and consumers to boycott Israeli goods based on Israeli government policies. Such actions, particularly if they become more widespread, may adversely impact our ability to sell our products. Any hostilities involving Israel or the interruption or curtailment of trade between Israel and its present trading partners, or significant downturn in the economic or financial condition of Israel, could adversely affect our operations, cause our revenues to decrease and adversely affect the share price of publicly traded companies having operations in Israel, such as us. Moreover, individuals in certain geographical regions may refrain from doing business with Israel and Israeli companies as a result of their objection to Israeli



foreign or domestic policies. We may also continue being targeted by cyber terrorists because of being an Israeli company.

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Our operations may be disrupted by the obligations of personnel to perform military service.

As of December 31, 2017, we had 1,345 employees based in Israel. Our employees in Israel, including executive officers, may be called upon to perform up to 56 days per each three year period, (in some cases more, e.g. officers may be called to serve up to 84 days per each three year period) of military reserve duty until they reach the age of 40 (and in some cases, depending on their certain military profession up to 45 or even 49) and, in emergency circumstances, could be called to immediate and unlimited active duty (however, this would need to be approved by the Israeli government). In response to increased tension and hostilities, there have been since September 2000 occasional call-ups of military reservists, including in connection with the mid-2006 war in Lebanon, the December 2008 conflict with Hamas and the 2012 and 2014 conflicts in the Gaza Strip, and it is possible that there will be additional call-ups in the future. Our operations could be disrupted by the absence of a significant number of employees related to military service or the absence for extended periods of one or more of our key employees for military service. Such disruptions in the future could materially adversely affect our business and results of operations, especially if we are unable to replace these key employees with other personnel qualified in information technology and data optimization.

The tax benefits that are available to us require us to continue to meet various conditions and may be terminated or reduced in the future, which could increase our costs and taxes.

We are eligible for certain tax benefits provided to “Beneficiary Enterprises” under the Israeli Law for the Encouragement of Capital Investments, 1959, referred to as the Investment Law. In order to remain eligible for the tax benefits for “Beneficiary Enterprises” we must continue to meet certain conditions stipulated in the Investment Law and its regulations, as amended. Most recently, the Investment Law was amended as part of the Economic Efficiency Law that became effective on January 1, 2017, or Amendment 73, under which a new incentive regime would apply to “Preferred Technological Enterprises” and “Special Preferred Technological Enterprises” that meet certain conditions stipulated under Amendment 73. In addition, in September 2011, we received a tax ruling from the Israeli Tax Authority, according to which, among other things, the Israeli Tax Authority approved (i) our status as an “Industrial Enterprise”; and (ii) that the expansion of our enterprise is considered as a “Beneficiary Enterprise” with 2009 as an elected year of operations, all under the Investment Law as amended by 2005 Amendment. The benefits available to us under this tax ruling are subject to the fulfillment of conditions stipulated in the ruling. If we do not meet these conditions, the ruling may be abolished which would result in adverse tax consequences to us. Further, in the future these tax benefits may be reduced or discontinued. If these tax benefits are reduced, cancelled or discontinued, our Israeli taxable income would be subject to regular Israeli corporate tax rates. The standard corporate tax rate for Israeli companies was 26.5% for 2015, decreased to 25% for 2016, 24% in 2017 and 23% in 2018 and thereafter. Additionally, if we increase our activities outside of Israel through acquisitions, for example, our expanded activities might not be eligible for inclusion in future Israeli tax benefit programs. See “Item 10.E Additional Information—Taxation—Israeli Tax Considerations and Government Programs.”

It may be difficult to enforce a U.S. judgment against us, our officers and directors and the Israeli experts named in this annual report in Israel or the United States, or to assert U.S. securities laws claims in Israel or serve process on our officers and directors and these experts.

We are incorporated in Israel. Only some of our directors and none of our executive officers are resident in the United States. Our independent registered public accounting firm is not a resident of the United States. Most of our assets and the assets of these persons are located outside the United States. Therefore, it may be difficult for an investor, or any other person or entity, to enforce a U.S. court judgment based upon the civil liability provisions of the U.S. federal securities laws against us or any of these persons in a U.S. or Israeli court, or to effect service of process upon these persons in the United States. Additionally, it may be difficult for an investor, or any other person or entity, to assert a claim based on U.S. securities laws in original actions instituted in Israel. Israeli courts may refuse to hear a claim based on a violation of U.S. securities laws on the grounds that Israel is not the most appropriate forum in which to bring such a claim. Even if an Israeli court agrees to hear a claim, it may determine that Israeli law and not U.S. law is applicable to the claim. If U.S. law is found to be applicable, the content of applicable U.S. law must be proved as a fact which can be a time-consuming and costly process. Certain matters of procedure will also be governed by Israeli law. There is little binding case law in Israel addressing the matters described above.

Your rights and responsibilities as our shareholder are governed by Israeli law which may differ in some respects from the rights and responsibilities of shareholders of U.S. corporations.

Since we are incorporated under Israeli law, the rights and responsibilities of our shareholders are governed by our articles of association and Israeli law. These rights and responsibilities differ in some respects from the rights and responsibilities of shareholders in United States-based corporations. In particular, a shareholder of an Israeli company has a duty to act in good faith and in a customary manner in exercising its rights and performing its obligations towards the company and other shareholders and to refrain from abusing its power in the company, including, among other things, in voting at the general meeting of shareholders on certain matters, such as an amendment to the company's articles of association, an increase of the company's authorized share capital, a merger of the company and approval of related party transactions that require shareholder approval. A shareholder also has a general duty to refrain from discriminating against other shareholders. In addition, a controlling shareholder or a shareholder who knows that it possesses the power to determine the outcome of a shareholders' vote or to appoint or prevent the appointment of an office holder in the company or has another power with respect to the company, has a duty to act in fairness towards the company. However, Israeli law does not define the substance of this duty of fairness. See "Item 6.C. Directors, Senior Management and Employees—Board Practices." Some of the parameters and implications of the provisions that govern shareholder behavior have not been clearly determined. These provisions may be interpreted to impose additional obligations and liabilities on our shareholders that are not typically imposed on shareholders of United States corporations.

Additionally, the quorum requirements for meetings of our shareholders are lower than is customary for domestic issuers. As permitted under the Companies Law, pursuant to our articles of association, the quorum required for an ordinary meeting of shareholders will consist of at least two shareholders present in person, by proxy or by other voting instrument in accordance with the Companies Law, who hold at least 25% of our outstanding ordinary shares (and in an adjourned meeting, with some exceptions, any number of shareholders). For an adjourned meeting at which a quorum is not present, the meeting may generally proceed irrespective of the number of shareholders present at the end of half an hour following the time fixed for the meeting.

#### Item 4. INFORMATION ON THE COMPANY

##### A. History and Development of the Company

###### Our History

Wix was founded in late 2006 on the belief that the Internet should be accessible to everyone to develop, create and contribute. In April 2008, we launched our Wix Editor, which enabled the creation of a digital presence in Flash format, and in October 2008, we launched our premium subscription offering. By April 2012, a month after we released our advanced HTML5 Editor, which greatly improved our service offering and support for mobile devices, we had reached 20 million registered users. In October 2013, we launched a further enhanced mobile product. In October 2015, we launched our new redesigned Wix Editor, which is based on a complete restructuring of the platform's codebase, developed using Facebook's React Technology. This newly designed editor offers a significantly leaner codebase, better modularization and improved testability. In June 2016, we launched Wix Artificial Design Intelligence, or Wix ADI. This solution was designed specifically to eliminate the most significant challenges of building websites – time, design and content creation – and enables a user to create a complete, personalized website in minutes. In July 2017, we launched Wix Code, a new development platform that enables users to build more advanced websites and web applications.

In November 2013, we listed our shares on the NASDAQ Global Market. We are a company limited by shares organized under the laws of the State of Israel. We are registered with the Israeli Registrar of Companies. Our registration number is 51-388117-7. Our principal executive offices are located at 40 Namal Tel Aviv St., Tel Aviv 6350671, Israel, and our telephone number is +972 (3) 545-4900. Our website address is [www.wix.com](http://www.wix.com). We use our website as a means of disclosing material non-public information. Such disclosures will be included on our website in the "Investor Relations" sections. Accordingly, investors should monitor such portions of our website, in addition to following our press releases, SEC filings and public conference calls and webcasts. Information contained on, or that can be accessed through, our website does not constitute a part of this annual report and is not incorporated by reference herein. We have included our website address in this annual report solely for informational purposes. Our agent for service of process in the United States is Wix.com, Inc., located at 500 Terry A Francois, 6<sup>th</sup> Floor, San Francisco, CA 94158-2230, telephone number (415) 639-9034.

###### Principal Capital Expenditures

Our capital expenditures for fiscal years 2017, 2016 and 2015 amounted to \$12.4 million, \$4.4 million, and \$6.3 million, respectively. Capital expenditures consist primarily of investments in leasehold improvements for our office space and the purchase of computers and related equipment. We anticipate our capital expenditures in fiscal year 2018 to be approximately \$12-\$13 million and to be financed from our cash balance and cash flow generated from current activities.

##### B. Business Overview

We are a leading global web development platform enabling businesses and organizations to take their businesses, brands and workflow online. As of December 31, 2017, we empower approximately 119.3 million registered users worldwide to create and manage a fully integrated and dynamic digital presence. We are pioneering a new approach to web development and management that provides an easy-to-use yet powerful cloud-based platform and that eliminates the need for complex coding, supplanting expensive design services. We offer our solutions through a freemium and subscription model and as of December 31, 2017, we had 3,223,036 million premium subscriptions.

Our core product is the Wix Editor, a drag-and-drop visual development and website editing environment complete with high quality templates, graphics, image galleries and fonts. With our platform, Wix registered users can create and manage a professional quality digital presence tailored to their business and brands' specific look and feel that is accessible across all major browsers and the most widely used desktop, tablet and mobile devices.

With Wix Artificial Design Intelligence, or Wix ADI, users can create a complete and personalized website tailored for the users' specific needs in minutes. The Wix ADI technology combines relevant design and curated content with some basic input provided by a user about his or her business name and type and uses artificial intelligence and a human design sensibility to generate algorithms that ensure every website designed using Wix ADI will be stunning and complete. If desired, users can further modify the website created with Wix ADI using the Wix Editor.

Through the use of Wix Code, users can combine the Wix Editor with advanced developer capabilities to create content-rich websites and web applications. Wix Code provides the ability to use databases to manage content and APIs to connect with external services and the ability to expose the web application as an API. This significantly reduces the need for developers and designers to juggle updating themes, hosts, content management systems (CMSs), plugins, content delivery networks (CDNs) and other third-party products.

We also provide solutions that business owners can use to operate mission critical aspects of their business online, such as selling goods, taking reservations and scheduling and confirming appointments. These applications provide Wix registered users a bespoke front-end for customers visiting their website, as well as a robust back-end management dashboard. We have developed these software applications for businesses in specific verticals, including retail and online stores, service providers, hotel and property management, music, photography and restaurants, among other verticals. These vertical applications are integrated into our website templates or can be installed on any existing website and set up with minimal effort by the user and without the need to write code.

Through our highly curated App Market, which was launched in the fourth quarter of 2012, as of December 31, 2017 we offered our registered users the ability to easily install and uninstall more than 270 different free and purchasable apps that we developed ourselves or carefully identified and selected through third-party developers for inclusion in our App Market, based on user needs and demand. These applications include social plug-ins, online marketing and customer relationship management tools, contact forms and transactional and payment processing capabilities. These apps add additional functionality and are easily integrated into registered users' websites with one click and without any coding.

Our cloud-based platform is accessed through a hosted environment, allowing our registered users to update their site and manage their business or organization at anytime from anywhere with an internet connection. We provide our registered users with flexibility and scalability, allowing them to expand their digital presence as their business, organizational, professional or individual needs change and grow.

We believe a substantial portion of our registered users are small business owners, organizations and entrepreneurs. Our scale and reach makes us an attractive partner for companies interested in distributing their own solutions to this audience. As we expand our platform through partnerships we are able to increase our value proposition for existing registered users and more easily attract new users.

By developing business intelligence using the data we have generated over several years of operation, we are able to create efficiencies in our marketing budget. We have therefore been able to leverage online channels effectively for the majority of our marketing efforts without the need for a direct sales force. In addition, many of our registered users refer us within their personal and professional networks. As a result, a majority of our premium subscriptions are generated from free traffic to our website, primarily through search engine optimization or direct traffic, meaning visitor traffic that reaches our website, Wix.com, via unpaid search results or by typing the URL of our website in their browser, to our website, which includes customer referrals.



We are removing not only technological, but also geographic and linguistic barriers to web development, in order to empower almost everyone to create and manage a digital presence in their own language. We currently enable our users to create their websites in any language and offer our platform in seventeen languages — English, French, Spanish, Portuguese, Italian, Russian, German, Japanese, Korean, Polish, Dutch, Turkish, Hindi, Norwegian, Swedish, Danish and Czech, and we plan to add more languages in the future.

Our registered users grew from 17 million at December 31, 2011 to approximately 119 million at December 31, 2017, representing a 38.3% compounded annual growth rate. Our premium subscriptions have grown from 298,143 to 3,223,036 over the same period, representing a 48.7% compounded annual growth rate. Through December 31, 2017, we had achieved 32 consecutive quarters of sequential growth in the accumulated number of premium subscriptions. We have also achieved 32 consecutive quarters of growth in revenues and collections. We had revenues of \$203.5 million, \$290.1 million and \$425.6 million and collections of \$241.7 million, \$342.1 million and \$484.0 million in 2015, 2016 and 2017, respectively. We had a net loss of \$51.3 million, \$46.9 million and \$56.3 million in 2015, 2016 and 2017, respectively.

In January 2017, we acquired 100% of the share capital of Loyalblocks Ltd., a privately held Israeli company (doing business as Flok), in consideration of assuming certain liabilities. Loyalblocks is a provider of customer loyalty and engagement tools for small businesses.

In February 2017, we acquired 100% of the capital stock of DeviantArt, Inc., a privately held Delaware based corporation, for cash consideration of approximately \$36 million, including the assumption of approximately \$3 million of liabilities. DeviantArt, based in Los Angeles, is one of the world's largest online communities dedicated to artists, art enthusiasts and designers. We expect DeviantArt to increase traffic and assist our product development and brand recognition growth. DeviantArt's focus on developing and fostering online collaboration and communities is expected to provide Wix users with a platform to engage with creative designers and artists across multiple mediums.

## Industry Background

As consumers have moved all forms of commerce online and onto mobile devices, businesses, organizations and professionals need not only a website, but also a dynamic digital presence with tools to manage interactions with customers, suppliers, partners and employees online and in real time. These interactions include back-end activities like invoicing, customer relationship management and payment processing, as well as front-end activities such as communications, online marketing, reservations and scheduling, and social media integration.

Use of dynamic web content and services for high-level customer engagement is becoming increasingly prolific. However, building this presence is becoming more challenging for businesses, organizations, professionals and individuals due to costs, time constraints, lack of skills and language barriers. We believe there is a significant opportunity to provide an elegant cost-effective solution that caters to the accelerating demands of businesses, organizations, professionals and individuals who need to create and manage a dynamic, professional digital presence.

## Our Offerings

We offer our web development, design and management solutions and apps through an attractive online platform that enables our large user base of businesses, organizations, professionals and individuals to create a sophisticated and professional digital presence. Our web development technology is built based on HTML5 and offers HTML5 compatible capabilities, web design and layout tools, domain hosting, and other marketing and work flow management applications and services. By registering with our service, our users gain access to the Wix Editor, Wix ADI and Wix Code capabilities, which enable the users to design and manage as many websites as they choose, in order to establish or enhance their digital presence. No installation of software is necessary to use the Wix Editor, as our advanced editing and design platform is accessible through the cloud directly from our website.





## Free Products

Our registered users receive access to hundreds of free design templates for personal and business use, free web hosting through a Wix domain, free apps from our App Market, and blog and social network page support. The websites developed using our free product contain Wix advertisements in the footer of the website, and tags, or metadata, which contain our name. Our name is also contained in the link to the user's website.

Our free product and service offerings includes the following features and capabilities:

### · Wix Editor

At the core of our platform is the Wix Editor, which is currently localized to seventeen languages, and allows registered users to maximize their digital presence by designing an unlimited number of websites, which are customizable using images, layouts, colors, fonts and other content provided by Wix, or content uploaded by the user, including visual and audio media. All websites designed using our editor are fully customizable with HTML5 technology, and contain back-up and firewall protection, as well as certain services designed to reduce the effect of denial-of-service attacks. The Wix Editor offers a highly visual design experience as well as several code-free features such as full screen strip layouts, full page video backgrounds, single click parallax effects and more.

### · Wix Artificial Design Intelligence

We launched Wix Artificial Design Intelligence, or Wix ADI, in June 2016. Wix ADI is an AI-based solution that is designed to eliminate the most significant challenges of building websites – time, design and content creation. Through its technology and basic input provided by a user about its business name and type, Wix ADI combines relevant design and curated content to create a complete, personalized and unique website tailored for the users' specific needs, in minutes. With this technology, we have blended artificial intelligence and a human design sensibility resulting in algorithms that ensure every website designed using Wix ADI will be stunning and complete.

### · Wix Code

We launched Wix Code in July 2017. Wix Code is a powerful development platform that allows users to extend the functionality of their online presence. With Wix Code, creators, designers and developers can take advantage of a server-less development environment that features an array of advanced functions to create content-rich, custom websites and web applications. The innovative product combines the sophisticated Wix Editor with a powerful new set of development capabilities. Starting with the drag-and-drop Wix Editor, users can design a front end (client-side), then employ Wix Code developer tools to add advanced functionality and capabilities to the back end. Wix Code includes features that are built into the platform and do not require code to implement. Wix Code enables easier web application creation, providing the ability to use databases to manage content, APIs to connect with external services and the ability to expose the web application as an API. This significantly reduces the need for website managers to coordinate between updating themes, hosts, content management systems (CMSs), plugins, content delivery networks (CDNs) and other third-party products. Wix Code provides an all-in-one platform, hosted in the Wix cloud, that allows users to spend their time creating, rather than on complicated setup and maintenance. These capabilities are coupled with the Wix OS backend to manage all operational aspects of a website or application.

· Wix Mobile Web

All of our products allow registered users to optimize their existing Wix sites for viewing on mobile devices. Our mobile site technology is based on HTML5 and allows registered users to customize their sites for different mobile devices, yet share design elements and all site data between the different variants. We do not currently charge for our mobile solution.

· Wix App

We introduced in October 2016 the Wix App, a native mobile application available in iOS and Android, to allow users to fully manage their websites and Wix operating systems on the go, wherever they are, in order to run their businesses in real time. The Wix App is an interface that streamlines the day-to-day mobile management that businesses need to operate e-commerce, marketing, customer service, bookings and communications with customers and site visitors. The Wix App is available for download for free in the Apple App Store and Google Play.

· Wix SEO Wiz

In 2017 we introduced the Wix SEO Wiz, a new widget that guides users through the most common steps that help the users' site appear in online searches. Wix SEO Wiz provides users with personalized plans to optimize their site for search engines like Google. SEO Wiz's keyword analyzer helps users pick strong and recommended keywords, upon which they receive a checklist with step-by-step instructions on how to incorporate those keywords and other details in their SEO settings. The SEO plan covers all the most important set ups, such as meta titles, descriptions, Alt text, internal links and site content. Once users complete a few basic checklist items, they can instantly index their site on Google, using a feature developed in partnership with Google. Users then receive regular achievement updates with key insights about the progress of their websites in search results. While completing their checklist, users can enrich their SEO knowledge with helpful videos and articles in the SEO guide of the application.

Premium Subscriptions

Our premium subscriptions are purchased primarily by businesses, organizations and professionals in a variety of fields, such as art, finance, entertainment, music, photography, tourism, beauty, sports, food services, property management or publishing. The customers of our premium subscriptions are not concentrated in any particular field. Our premium subscriptions offer all of the features of our Wix Editor, Wix ADI and Wix Code but also include features tailored to more specific business' needs, such as eCommerce (online stores) and appointment (bookings) applications and marketing tools such as Google Analytics and mailing lists. Our premium subscriptions also offer premium technical support services. We also offer ad vouchers with certain of our premium subscriptions, which allow registered users to expand their digital presence by, for example, advertising their pages on third-party sites, such as Bing and Google.

To date, most of our revenues have been from selling our Combo, Unlimited and Wix Stores premium subscriptions. These solutions are primarily purchased by businesses, organizations and professionals, which make up the substantial majority of our total user base.

Our premium subscriptions offer the following additional features and capabilities:

·Connect Your Domain

All of our premium subscriptions allow registered users to connect their own domain name to their website, which means that the free Wix site address will be replaced with the user's personal website address. The user's domain name can also be purchased and managed directly through the Wix platform. Registered users who do not purchase premium subscriptions can also choose to purchase a domain name as a stand-alone product, and continue using our free Wix Editor product to develop and maintain their website.

·Google Analytics

All of our premium subscriptions give registered users access to Google Analytics, a third-party application that provides useful data on the people that visit their website. This feature allows our business users who connected their domain, to collect and use such data for marketing and other commercial purposes.

· Removing Wix  
Brand Ads

Most of our premium subscriptions provide a website free of the Wix brand ads that are placed on the free Wix websites and on websites of premium subscriptions that are not eligible for ads removal.

·Add Favicon

Most of our premium subscriptions allow users who have published their sites to change the Favorite Icon, or Favicon, that appears next to the user's page address and bookmark in most internet browsers. Registered users can change the Favicon that appears on the website by uploading their own Favicon. This feature enhances the professional appearance of registered users' digital presence.

·VIP Services

We offer our VIP subscribers four additional features. Our VIP Support feature enables these subscribers to contact a dedicated team of support specialists. If a support specialist is not available immediately, we will call the VIP subscriber back within a matter of minutes via our Priority Call Back service. In addition, VIP subscribers have the option of receiving our Instant Response service during business hours via Wix Answers, our online automated ask-and-answer database. Finally, VIP subscribers who have published their sites can receive feedback from us regarding how the sites' structure and SEO can be improved via our Professional Site Review service.

Applications and Value-Added Solutions

Wix App Market

The Wix App Market is an online platform that offers our registered users a range of software apps which can be seamlessly integrated as add-ons into our registered users' websites. The App Market includes over 270 free and purchasable marketing, social and media apps, as well as audio and visual content. Since the launch of the App Market in October 2012 through December 31, 2017, registered users had installed 83.6 million apps. Registered users gain access to apps in the App Market, and through our easy-to-use drag-and-drop technology they can install or remove as many apps as they would like within moments. In the second quarter of 2014, we launched a new technology, Wix Hive, which has turned the App Market into a dynamic data ecosystem. The Wix Hive technology enables standalone apps to share data and create new insights and functionalities that website owners can leverage to further manage and grow their business online. The App Market consists of apps that are developed by us or by

third-party developers. Our research and development team creates our Wix Apps, and also tests and evaluates apps created by third-party developers. We have sales agreements with third-party developers and we are customarily entitled to a share in 30% of revenues from the sale of every third-party app purchased through our App Market. We are responsible for the development, operation and maintenance of apps that we create, and the third-party developers are responsible for the apps that they create. However, we may remove a third-party app at any time if it does not meet our standards or for other reasons.

## Wix ShoutOut

In the third quarter of 2014, we launched Wix ShoutOut, an integrated email marketing product which enables registered users to easily create and send customized email campaigns, such as newsletters, updates and promotions directly from their Wix accounts. This is the first product that was built with the Wix Hive API, which enables formerly standalone apps to share their collected data and provide users with new capabilities and actionable information. Wix ShoutOut uses Wix Hive by accessing contact lists which are stored and managed in the users' accounts, thus addressing the critical business need of effective client communication management. In the second quarter of 2015, we collaborated with Facebook to enable Wix registered users to maximize their audience reach. They can easily create Facebook Page ads based on their ShoutOut campaigns from the Wix platform. As of February 28, 2018, Wix ShoutOut had been used by more than 1 million Wix registered users who have sent nearly 5 million ShoutOuts to approximately 2.2 billion contacts since its launch.

## Wix Vertical and Professional Applications

We offer a robust and comprehensive platform for all business owners. As each business segment faces a unique set of challenges, we develop tailored products and solutions to address specific business needs. Such verticalized strategy allows us to build on this solid foundation by adding more layers and enhancements that cater to the specific needs of each industry and provides an easy and affordable way for these businesses to bring mission critical workflow online. Current vertical solutions are Wix Hotels, Wix Stores, Wix Music, Wix Bookings, Wix Restaurants, Wix Photography, Wix Video, Wix Events and Wix Blog. We intend to continue introducing additional solutions that offer a complete online business solution tailored to specific businesses.

### · Wix Stores

Wix Stores is our e-commerce solution which allows our registered users to create, design and manage an online store through which they may sell their products online and process payments using an integrated shopping cart app, which is already included in the subscription. Wix Stores users can tailor the style of the online store to their business, and with the secured shopping cart application, the users may accept payment for products or services through a variety of integrated payment solutions we offer, such as wallets, credit cards, and other types of offline payments such as cash on delivery, point of sale and bank transfers. We also provide registered users with the ability to manage inventory, provide coupons and set their own shipping and tax rules as part of our Wix Stores. Additionally, users can manage their online store on the go by using the Wix App on a mobile device.

The Wix Stores platform provides online merchants the ability to create an online store and a full set of store management tools like payment processing, inventory management and shipping. With improved mobile and social commerce features, Wix Stores is designed to integrate seamlessly with other components of the Wix platform, including Wix ShoutOut, Wix Hive and App Market offerings. Combined with these products, Wix Stores enables merchants to create, manage and grow their online business from one cohesive environment.

· Wix Bookings

Wix Bookings, which was launched in January 2016, is an end-to-end online appointment booking solution, giving small businesses an easy and effective way to connect with customers, manage appointments and group bookings, and acquire more business by allowing customers to book online. The solution currently synchronizes with Google Calendar to help business owners keep track of appointments and scheduled classes, send reminders to customers, and collect payments, and is customizable for any type of business. Wix Bookings users can also accept payments for services on their website through certain integrated payment solutions and can record their clients' bookings history to help them better manage their bookings interactions. Wix users can manage their Bookings schedule through their website or on their mobile phones using the Wix App which now includes full support for Bookings management.

· Wix Hotels

Wix Hotels offers a complete booking engine that is fully integrated into a Wix website for hotels, B&Bs and vacation rentals. This code-free product makes it simple to build and maintain the room inventory complete with pricing, booking, reservation and payment management capabilities using certain integrated payment solutions. Available through our hotel design templates and the Wix App Market, Wix Hotels is not limited to reservations made through the website. Through their dashboards, hotel owners can easily add reservations made elsewhere and manage their entire room inventory in one place. As a result of certain engagements with third parties, hotel owners can accept and manage bookings that come through many online travel agencies and marketplaces, such as Booking.com, Expedia and Travelocity. Wix Hotels users can also enhance the promotion of their business by easily connecting to Google Hotels Ads, and as a result increase their traffic and conversion rate. Wix Hotels is fully optimized for mobile devices, enabling potential travelers to book a room on the go.

· Wix Music

Wix Music is a complete solution for musicians and entertainers which includes an advanced music player, commission free sales, an easy to use digital asset management system, tracking and metrics, concert promotion and ticketing, fan management and communication tools and a range of specifically designed music website templates. All of these components are seamlessly packaged, empowering musicians to leverage the web to drive awareness and professionally promote and sell their music directly from their Wix websites. Optimized for mobile devices, Wix Music ensures music sharing and purchasing can continue on the go.

· Wix Restaurants

Wix Restaurants provides various solutions for restauranteurs, including Wix Restaurants Menus, Wix Restaurants Orders and Wix Restaurants Reservations. Wix Restaurants Menus enables restauranteurs to easily create a menu on their Wix website, using professionally created layouts offered on our site, and further enables restauranteurs to share their menu on their Facebook page, helping them to increase their exposure to potential customers, while managing their menu is a single platform. Wix Restaurants Orders is an online ordering solution for restauranteurs enabling them to receive takeout and delivery orders through their desktop and mobile Wix websites and to consequently grow their business and maintain a direct relationship with their customers. Restaurant owners can also accept payments on their site through certain integrated payment gateways. Orders are received by fax, email, the Wix dashboard, or using a tablet or mobile device running the Wix Restaurants mobile app. Wix Restaurants Reservations lets restaurant owners take online table reservations from their restaurant site and confirm and manage reservations via their Wix dashboard.

· Wix Photography

Wix Photography is a comprehensive solution for photographers looking to create their portfolio and manage their business online. Our dedicated solution includes multiple templates custom designed for photographers, dozens of gallery layout options including specific features relevant for professional photographers and other visual artists, such as the ability to control the image quality, support multi images and video loads and more. In addition to a dedicated portfolio site to showcase their art, Wix offers photographers and other visual artists other relevant and customary tools such as the Wix Photo Albums app that enables event photographers to easily create an album site for their clients and enhance their exposure to other potential clients, and Wix Art Store allowing artists to sell their art online to their customers. Photographers registered with Wix can also use other applications to manage and grow their business including appointment management capabilities through Wix Bookings, marketing solutions such as Wix ShoutOut and customer relationship management tools.

· Wix Video

In the fourth quarter of 2016, we launched Wix Video to allow our users to showcase, promote and sell videos on their Wix website. Users can create their own video channels, upload and stream videos in the highest quality, or easily add them from YouTube, Vimeo and Facebook, and feature their videos in fully customizable desktop and mobile layouts. Wix Video also includes the ability to monetize video content by offering our users sell, rent and offer monthly subscriptions to their users, commission free.

· Wix Events

In 2016, we launched Wix Events, which enables users to create and display multiple events on a page, send invites, collect RSVPs and manage a guest list in one place. It can be used for conferences, meetups, concerts, shows, weddings, parties, and more. Users can sell tickets directly on their site and can use Wix to promote the event on social media.

· Wix Blog

Wix Blog enables users to easily create a blog and grow an online community. Users can choose from several beautiful layouts with built-in social features. Readers can join the blog, create member profiles, follow posts, and comment with images and videos.

· Wix Forum

Wix Forum enables users to create an online community directly on their Wix site. The site visitors can become members, join conversations, follow posts, upload videos, write comments and more. Users can choose from a variety of layouts and customize them to their needs.

· Wix Arena

Wix Arena is an online marketplace that we re-launched in 2017, which brings together our users and talented web designers, who can help our users build a website that fits their needs and bring their vision to life. Users can search through hundreds of talented web designers listed by language and location and explore their portfolios in order to find the best designer to help them build their website.

## Customer Support

We offer our registered users the following support and services:

### Wix Support and Call Center

Our customer solutions experts operate the Wix Support and Call Center. Our customer solutions team is responsible for providing all of our registered users, including the free registered users, with direct and indirect support, including monitoring and updating forums for user questions and knowledge databases, such as our online automated ask-and-answer database. Because our support team is able to address many of our registered users' questions through these online and automated channels, direct customer support is often not needed to address user questions or technical issues. However, our support staff does provide web-based technical support through email and through the use of ConnectWise Control and LogMeIn remote access software. The Wix Call Center also provides telephonic support during U.S. business hours and email support during extended hours. We do not currently offer telephonic support outside of U.S. business hours. Our Support and Call Center employees offer telephonic and email support in certain non-English languages, including French, Spanish, Portuguese, Italian, Russian, German, Japanese and Korean. For example, our customer support staff and technical staff with Italian and Portuguese-language capabilities provide Italian and Portuguese-language support by updating forums in response to customer questions and updating knowledge databases and translating the how-to videos in the Wix Support Center. We plan to hire additional employees with other fluencies as we add more languages. As of December 31, 2017, we had over 400 Support and Call Center employees, located in the United States, Israel and Ukraine.

### Wix Premium Support

All of our premium subscriptions contain access to Wix Premium Support. Those users with premium subscriptions receive access to all the benefits of the Wix Support Center and Call Center, but they also receive priority access to our team of customer solutions experts, who prioritize premium subscription questions and requests over other user questions.

### Selling and Marketing

Our selling and marketing efforts focus primarily on online and offline advertising and we do not employ a direct sales force.

We market our solutions and apps to businesses, organizations, professionals and individuals, including entrepreneurs and freelancers. We are able to attract a high volume of users and premium subscriptions by offering free solutions and services and upgrades and improvements to our premium subscriptions. We also offer 14-day refund period of our premium subscriptions. As of December 31, 2017, we had approximately 119.3 million registered users and 3.2 million premium subscriptions.

### User Acquisition

We engage in online and offline advertising, with a focus on acquiring new users to our platform. A majority of our premium subscriptions are generated from free traffic to our website, primarily through search engine optimization or direct traffic, meaning visitor traffic that reached our website, Wix.com, via unpaid search results or by typing the URL of our website in their browser. We also acquire a small amount of free traffic through our participation on social networking sites and the banner advertisements we place on our non-paying registered users' websites. In order to increase our exposure and optimize organic, or free, search engine results, we constantly test our search engine optimization strategy to ensure that our website is relevant to those potential customers seeking web development and design products. Further, we continually evaluate our marketing spending and its effectiveness and invest in those activities that are most likely to maximize our return by generating premium subscriptions. In 2018, we are continuing



to focus our marketing spending on channels that bring new users to visit, register and begin using our products and services.

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We believe our user acquisition strategy further benefits from the brand we have built as a leading web development and design platform for businesses, organizations, professionals and individuals. We believe that our branding efforts have accounted for a significant portion of users who come directly to our website, through typing our URL directly into their browsers, or through searching for “Wix” or a term related to the establishment of a digital presence. We believe that these users are also attracted due to referrals from other users, and via word-of-mouth regarding our products and services. Our acquisition strategy also benefits from our use of A/B testing on our website, a marketing approach that aims to identify changes to our website which will increase or maximize user interest and acquisition. Our Design Studio team changes the layout of our website from time to time, and engages in A/B testing in order to determine which layouts and graphics are the most successful in maximizing user acquisition.

Our marketing expenditures directed to advertising were \$87.6 million in 2015, \$113.2 million in 2016 and \$141.3 million in 2017. Our marketing expenditures are directed toward the following channels:

·Cost-Per-Click Advertising

We pay leading search engines to provide search results that provide our solutions and services with the maximum exposure when users search for key terms related to establishing a digital presence. We do this both by elevating the placement of our website address in search results and by placing targeted display or banner advertisements on the search results. We pay search engines on a cost-per-click, or CPC, basis each time a person clicks on such a paid search result or advertisement.

·Online Presence and Branding

We have established an active online presence in social networking sites such as Facebook, Twitter, and Instagram, and we also market our solutions by purchasing generic and targeted advertisements on these websites and others. We also consult public and media relation firms to help brand and advertise our solutions and services.

·Traditional Media Advertising

Some of our marketing expenses are directed towards more traditional advertising such as television commercials mainly in the United States.

·Other expenditures

We maintain the Wix Affiliate Program, a program where our affiliates receive a commission for directing visitors to our website, by placing Wix ads on their personal websites. From time to time we also hold webinars, promotional contests, user meet-ups and public relations events at our Tel Aviv, New York and San Francisco offices.

User Retention

Once we attract visitors to our website, our preliminary goal is to register them as registered users. Once they are registered, we distribute marketing and promotional emails and support tools to help our registered users build their site. These materials are created by our Wix content team, which complements our marketing efforts by focusing on the consistency of our branding message online, in our offline merchandise and at our community events. We constantly seek to convert our registered users to purchase premium subscriptions by offering them enhanced functionalities. Registered users who convert to a premium subscription gain access to additional features such as, Wix ad removal, access to Google Analytics, domain connectivity and eCommerce solutions. We offer a 14-day refund to introduce registered users to these additional products and solutions. Registered users can choose between monthly, one-year, two-year or three-year premium subscriptions and as of December 31, 2017, 82% of our premium subscriptions were for a one-year period or more and 18% were monthly. We seek to increase the number of premium annual subscriptions by offering seasonal promotions and discounts on annual subscriptions. We also send our

premium subscribers emails reminding them to renew their subscriptions before expiration, as well as coupons and other discounts on products and services. We seek to retain premium subscriptions by offering upgrades for our premium products and free and premium apps in our App Market.

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We further retain premium subscriptions by developing relationships with subscribing users through the Wix Support and Call Center, a forum where we address our registered users' technological needs and concerns. Through the Support and Call Center, we also help non-paying registered users transition to premium subscriptions, by providing guidance on integration of premium subscription features into existing websites created with our Wix Editor. We seek to maintain goodwill with all of our registered users, and retain them as registered users, even if they do not choose to subscribe to or renew their premium subscriptions.

#### Our Technology and Infrastructure

Our cloud-based platform provides our registered users with a suite of web design, development and workflow management products and apps, as well as hosting for our registered users' sites. All of these tools are accessible directly through our platform. In order to enhance our suite of products, we also conduct product and quality assurance testing on all new and existing technology integrated into our platform.

#### Wix Cloud

We use a flexible hybrid cloud, comprised of both cloud-based storage and data centers, to host our products and our apps, and the websites that our registered users create. We rely on collocated servers, cloud service providers and other third-party hardware and infrastructure to support our operations. Our primary data centers are located in two geographically separate locations in the United States, one located on the East coast and the other located on the West coast. The vast majority of our data is located in our primary data centers in the United States from Google, Inc. and from Amazon.com, as well as from Equinix, Inc. and we also use cloud storage from Google, Inc. and Amazon.com. A small amount of our data remains stored in servers leased from Hostway Services, Inc., which, in the past, hosted a more substantial amount of our data. To date, we have not experienced any material outages or service interruptions. This highly-scalable multi-tenant technology enables us to serve all of our users simultaneously and consistently, and scales based on overall traffic and capacity. As a result, our platform is not affected or slowed down by growth in the number of registered users in our cloud. Our cloud technology is also capable of full resource sharing, meaning that our registered users can access information via their individual website database easily over the Internet without the need for manual download, with content delivery provided by proven international cloud delivery network vendors, such as Akamai and Level 3. To further reduce the possibility that data of our registered users will be lost, and that our platform will not experience material downtime, we also use Google and Amazon cloud services and Equinix, to back up our registered users' data and the use of our platform. We apply industry standard data security measures to protect against potential vulnerabilities in our technology.

#### HTML5-Based Design Capabilities

HTML5 is the latest and most advanced markup language available for structuring and presenting dynamic content on the Internet. Unlike websites built using older HTML versions, websites using HTML5 can seamlessly incorporate video, audio, fonts, graphics and animations. Moreover, rich and interactive web design and app integration can be achieved without the use of Flash. Because of HTML5's advanced capabilities, we use it as the basis for our products and have eliminated the need to combine Flash and HTML coding. We developed our HTML5-based technology by leveraging our many years of experience in developing web development and design tools.

## Style Engine and Smart Layout Technology

Our style engine technology provides registered users with advanced customization capabilities, making all aspects of a registered user's website customizable. Our technology, which uses dropdown lists and customized color palettes, allows the user to quickly brand or re-brand their website with just a few clicks in our editor. In one click, users can customize backgrounds, banners, buttons, fonts and font sizes using a dropdown list. Registered users can customize colors using a color palette. One click also allows users to simultaneously apply all color and style changes to all elements on the user's website. This type of customization is generally time-consuming and requires knowledge of advance HTML5 and CSS3 coding skills. However, with our style engine technology, our registered users can change their websites' style and branding in moments.

Our Wix Editor's Smart Layout technology offers both functionality and customization. Our technology provides for dynamic layout and content, meaning that no one component box on a registered user's website is static or incapable of being moved to other areas of the user's page. Component boxes added to our registered users' websites identify the user's site structure and automatically adapt to the size and style of other component boxes within the site. These capabilities allow the registered user full control over the layout of their website, allowing the user to create a design-rich, professional website.

## Web Service Creation Environment

We use a powerful software development kit, or SDK, with an application programming interface, or API, which allows apps and widgets to be seamlessly embedded into the websites designed by our registered users. This technology allows the user to embed third-party apps or widgets, such as contact forms, FAQ lists and blogs, into the user's website by linking the app or widget's URL to the user's website link. All integration is done with one click, using the Wix App Market, where the user can choose which apps they would like to add to their website. The added app or widget may then be opened as a pop-up on the user's website, which further adds to our editor's dynamic layout capabilities. Further, SEO used in connection with the user's website will also attach to the embedded widget or app data, increasing the overall visibility of the user's digital presence.

## Wix Databases

Our application development and data technology, Wix Databases, is a platform that allows our registered users and developers to create their own apps and work management tools, such as contact forms and FAQ lists. This platform uses our drag-and-drop, style engine and smart layout technology, so that the user or developer may create professional-looking applications and tools with customized styles, colors and layouts. The apps and tools created through Wix Databases can be fully integrated into our registered users' websites through publishing on the Wix Editor platform.

## Infrastructure

We realize efficiencies in our operations, including marketing and delivery, since they are completely online-based and as such provide us flexibility and scalability. Our hybrid cloud and content delivery network enables our registered users to purchase and use our products and services online, through our website. As a result of these efficiencies, we have built a large registered user base, while limiting the number of physical offices required for conducting our business. We also have no need for a physical sales force, as our marketing and customer support operations are supported by online marketing tools such as CPC advertising, SEO and email distributions, and by customer support tools such as online forums and an advanced user self-service support system using online ticketing and a database of questions and answers.

We currently process all of the payments using a billing system that enables our registered users to submit credit or debit card information for processing. This system interfaces with a number of different payment gateway providers who then link to payment card processors and/or acquiring banks, based on the registered user's jurisdiction. With this system, we are not dependent on any single gateway provider or payment card processor.

Our infrastructure includes servers and bandwidth capacity collocated from third parties located in the United States, including cloud storage from Google and Amazon as well as Equinix. We use our own servers to run our research and development activities and to operate our office applications. Our use of servers in different locations, together with our use of Google and Amazon cloud services as well as Equinix to back up our registered users' data and serving our registered users, protects against accidental data loss and reduces disruption to our operations from server outages or physical damage to a server. We are maintaining industry standard server operations, which provide our growing registered user base with industry standard reliability to access to our products and consistent service provisions.

### Research and Development

As of December 31, 2017, we had 1,061 employees and contractors focused on research and development. Our research and development team, which also includes our design team, is comprised of individuals with extensive experience in web development, design, data management and data analysis. Our principal research and development activities are conducted from our headquarters in Tel Aviv, Israel. We also engage a team of developers in Ukraine through a third-party service organization and directly with local subcontractors in order to benefit from the significant pool of talent that is more readily available in that market. We have also engaged a team of local developers in Lithuania in order to benefit from the significant pool of talent that is readily available in that market. Our research and development personnel focus primarily on developing new apps and product and service offerings, as well as quality assurance.

Our research and development spending was \$77.6 million in 2015, \$105.4 million in 2016 and \$153.6 million in 2017. We invest in research and development in order to enhance and expand our product and service offerings, tailor our marketing efforts, and expand our registered user base. Our development strategy is focused on identifying updates and enhanced features for our existing offerings, and developing new offerings that are tailored to our registered users' needs and often arise out of their suggestions. For this, we rely heavily on sophisticated tools, such as automated process systems which, for example, enable our registered users to request new product features and upgrades through the use of our automated request system on our website, which then enables us to quickly react to our registered users' requests. We also engage in A/B testing in order to measure the effectiveness of our upgrades and new product features.

We recruit talented individuals for our research and development team through a variety of techniques, including cooperation with local universities and recruiting events. We are a member of key industry organizations and regularly attend and participate in industry events, where our employees frequently speak. We also engage potential talents by hosting technology meet-ups in our offices in our different locations.

### Intellectual Property

Our success depends upon our ability to protect our core technology and intellectual property. We rely on a combination of confidentiality clauses, trade secrets, copyrights and trademarks to protect our intellectual property and know-how. In addition, we have filed a number of patent applications and continue to file for patents in order to protect our inventions. We have pending patent applications in the United States as well as in several additional jurisdictions worldwide. We also have pending PCT applications that may lead to additional patent applications. We cannot be certain that our applications will issue as patents. We actively monitor innovation within our company so as to properly consider whether to file additional patent applications. We enter into confidentiality and proprietary rights agreements with our employees, consultants and business partners, and we control access to and distribution of our

proprietary information.

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The Wix brand is central to our business strategy, and we believe that maintaining, protecting and enhancing the Wix brand is important to expanding our business. We have obtained trademark registrations in certain jurisdictions that we consider material to the marketing of our products, including the marks WIX® and the Wix logo. We have trademark applications for additional marks that we use to identify certain product collections used for certain of our products. While we expect to submit additional trademark applications and for our pending applications to mature into registrations, we cannot be certain that we will obtain such registrations.

Our in-house know-how is an important element of our intellectual property. The development of our web development and design software and management of our data analysis and marketing programs, requires sophisticated coordination among many specialized employees. We believe that duplication of this coordination by competitors or individuals seeking to copy our software offering would be difficult. This risk is further mitigated by the fact that our product and service offerings are cloud-based such that most of the core technology operating on our systems is never exposed to a user or to our competitors.

### Competition

We enable our registered users to create a customizable, fully-integrated and professional digital presence through an attractive web-based software platform with various marketing and workflow management capabilities. We believe that the key competitive factors in our market include, simplicity and ease of use, product breadth, integration of multiple solutions, price, design quality, global scope, security and reliability and brand recognition and reputation

We believe that we compete favorably on these factors because of our comprehensive suite of design and digital presence software, advanced technology and product integration, efficiencies in operations, brand recognition and marketing expertise, longstanding customer, designer and developer relationships, large user base, and track record of successfully attracting new users to our website and products.

The market for providing web-based website design and management software is evolving and highly fragmented today. We believe no provider currently offers a comprehensive, customizable, fully-integrated workflow solution to create and manage a professional digital presence comparable to ours. However, some providers currently offer separate products or technologies that overlap with parts of our solution and could try to integrate these with other products to offer a more comprehensive solution in the future. Providers of these point products vary and include:

DIY template-based website design companies that help a business build a website such as Squarespace, Weebly and Jimdo;

offerings that provide e-commerce software enabling a merchant to sell goods online such as Shopify and BigCommerce;

software that enables a business to take and manage appointments and/or reservation schedules online, such as Mindbody and BookingSuite; and



solutions that help businesses market themselves online such as SEM and SEO providers, e-mail marketing solutions and online directory listing services.

Additionally, several large service companies that primarily offer domain registration and hosting services, such as GoDaddy, Web.com and Endurance International, provide the ability for a business owner to build a website using their tools or have one built by their workforce.

## Government Legislation and Regulation

### Actions of our Registered Users

In many jurisdictions, including the United States and countries in Europe, laws relating to the liability of providers of online services for activities of their users and other third parties are evolving and are currently being tested by a number of claims, including actions based on defamation, breach of data protection and privacy rights and other torts, unfair competition, copyright and trademark infringement, and other theories based on the nature and content of the materials searched, the ads posted, or the content uploaded by users. Any regulatory or court ruling or other governmental action that imposes greater restriction or liability on providers of online services for the activities of their users and other third parties could harm our business. In addition, rising concern about the use of the Internet for illegal conduct, such as the unauthorized dissemination of national security information, money laundering, supporting terrorist activities or conducting fraudulent activities may in the future produce regulation, legislation or other governmental action that could require changes to our products or services, restrict or impose additional costs upon the conduct of our business or cause registered users to abandon material aspects of our service.

### User Data

We hold certain personal data of our registered users, primarily, username, email address and billing details that are provided by the registered users and by the users who have purchased premium subscriptions, and may hold certain personal data of the visitors to our registered users' websites. We are subject to the data protection and storage laws of the State of Israel, as well as certain industry standards (including voluntary third-party certification bodies such as TRUSTe). In addition, we are subject to local privacy legislations in the areas where we operate. We operate in accordance with the terms of our privacy policy and terms of use, which describe our practices concerning the use, transmission and disclosure of user data.

While it is generally the laws of the jurisdiction in which a business is located that apply, because our services are accessible worldwide, there is a risk that data protection and privacy regulators of other countries, may seek jurisdiction over our activities in locations in which we process data or have registered users but do not have a local operating entity, employees or infrastructure. Where the local data protection and privacy laws of a jurisdiction apply, we may be required to register our operations in that jurisdiction or make changes to our business so that user data is only collected and processed in accordance with applicable local law. In such cases, we may require additional legal review and resources to ensure compliance with any applicable privacy or data protection laws and regulations.

### United States

A number of legislative proposals pending before the U.S. Congress and various state legislative bodies, concerning privacy and data protection could affect us, as can changing regulatory guidelines and interpretations. For example, the FTC has updated its guidelines relating to children's online privacy that were issued under the Children's Online Privacy Protection Act. Additionally, some states have passed proactive, as well as reactive, information security legislation. Regulatory enforcement actions and trends in consumer class actions against other companies indicate an inclination by regulators and judges to require companies to adopt certain minimum protections and security measures to protect personal information. The costs of compliance with these laws, best practices and regulatory guidance may increase in the future as a result of changes in interpretation.



## Europe

In April 2016, the European Union adopted a new General Data Protection Regulation, or GDPR, which replaced the European Data Protection Directive (Directive 95/46/ED) and includes more stringent obligations for online businesses, such as conducting a data protection impact assessment for risky processing operations, introducing the need for a legal basis when processing EU user data, imposing an obligation to act on data breaches, addressing data subject requests, restricting the collection and use of personal and “sensitive” personal data and expanding the legislative requirements for data processors, as well as introducing a stricter regime of enforcement. Additionally, the regulation has an extra-territorial effect and regulates the European activities of businesses regardless of their location or the locations of their servers. The regulation will become applicable as from 25 May 2018. The GDPR applies to Wix, as Wix processes EU user data. Wix is preparing for the GDPR, appointed a dedicated multi-disciplinary task team, and is taking the necessary measures in order to be compliant. Being subject to these and other laws and regulations, the more stringent requirements on privacy user notifications and data handling will require us to adapt our business and we are likely to incur additional costs.

We will probably be defined as a “Data Controller” with respect to the personal data of our users that we collect and are therefore subject to a number of key legal obligations under the GDPR. For example, among other things, we would be required to inform individuals if we process their data, that their information is going to be collected and/or processed, and for what specific purpose, provide a means for individuals to request access to their data, rectification, erasure and the right to withdraw consent for the data’s use, only retain data for a limited time and erase or review the data at the end of the limited period and to not transfer data outside the European Economic Area, to jurisdictions which do not ensure an adequate level of protection of personal data, without taking certain legitimizing steps. The European e-Privacy Directive (Directive 2002/58/EC as amended by Directive 2009/136/EC) obliges the EU member states to introduce certain national laws regulating privacy in the electronic communications sector. Pursuant to the requirements of some of those national laws introduced under the e-Privacy Directive, companies must, among other things, obtain consent to store information or access information already stored, on a registered user’s terminal equipment (e.g., computer or mobile device). These requirements predominantly regulate the use by companies of cookies and similar technologies. Prior to providing such consent, registered users must receive clear and comprehensive information in accordance with the applicable national law about the access and storage of information. Certain exemptions to these requirements on which we rely are available for technical storage or access for the sole purpose of carrying out the transmission of a communication over an electronic communications network or as strictly necessary to provide a service explicitly requested by the user. These rules are also set to change in the future, as a proposal for an e-Privacy Regulation has been published by the EU Commission, aiming to cover all forms of digital tracking (cookies, iBeacons, etc.) as well as machine-to-machine communications (Internet of Things).

Our registered users may also collect data through the websites that we host for them; however, because we only provide services that enable registered users to carry out their own purposes which may or may not include processing personal data, we are most likely a data processor with respect to such data. As a “Data Processor,” we would be obliged to implement adequate technical and organizational security measures and maintain records regarding all categories of processing activities under our responsibility.

## Facilities

Our principal facilities are located in Tel Aviv, Israel and consist of approximately 11,613 square meters (approximately 124,998 square feet) of leased office space. We also lease additional office space in Beer-Sheva totaling approximately 617 square meters (approximately 6,645 square feet). These facilities accommodate our principal executive, research and development, marketing, design, business development, human resources, finance, information technology, customer support and administrative activities. The leases for our Tel-Aviv offices expire on various dates between April 28, 2018 and July 31, 2022.

In the United States, we maintain offices in New York City, San Francisco and Miami as well as in Los Angeles where DeviantArt is located. In New York, we lease approximately 11,500 square feet. The leases for our NY offices expire between April 30, 2019 and May 31, 2021. In San Francisco, we lease 34,459 square feet until February 28, 2021, of which we sublease approximately 11,000 square feet to third parties. In Miami, we lease approximately 33,000 square feet for a period of seven years until July 31, 2025. In Los Angeles, we lease approximately 11,200 square feet until November 2018. In Lithuania, we maintain offices in Vilnius, in Germany we maintain an office in Berlin, and in Brazil we maintain an office in Santana de Parnaiba near the city of Sao Paulo.

## Legal Proceedings

See “Item 8. Financial Information—Consolidated Financial Statements and Other Financial Information—Legal proceedings.”

## C. Organizational Structure

The legal name of our company is Wix.com Ltd. and we are organized under the laws of the State of Israel. We have twelve wholly-owned subsidiaries: Wix.com Brasil Serviços De Internet Ltda. (Brazil), Wix.com, Inc. (Delaware, United States), Wix.com Luxemburg S.a.r.l (Luxemburg), Wix.com UAB (Lithuania), Wix.com Services Mexico S de RL de C.V. (Mexico), Wix.Com Germany GmbH (Germany), Wix Com India Private Limited (India), Wix.com Colombia S.A.S. (Colombia), Wix.com Singapore, OpenRest Ltd. (Israel), Appixia Ltd. (Israel) and Loyalblocks Ltd. (Israel).

Our subsidiary Wix.com Inc. wholly owns DeviantArt, Inc. (Delaware, United States) which wholly owns DeviantArt Canada, Inc. (Canada), DeviantArt Music, Inc. (Delaware) and Dadotart Inc. (Delaware).

Our subsidiary Loyalblocks Ltd. (Israel) wholly owns Loyalblocks Ltd. (Delaware).

## D. Property, Plants and Equipment

For a discussion of property, plants and equipment, see “Item 4.B.—Business Overview—Facilities.”

## Item 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

## Item 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

### Company Overview

We are a leading global web development platform enabling businesses and organizations to take their businesses, brands and workflow online. As of December 31, 2017, we empower approximately 119.3 million registered users worldwide to create and manage a fully integrated and dynamic digital presence. We are pioneering a new approach

to web development and management that provides an easy-to-use yet powerful cloud-based platform that eliminates complex coding, supplanting the need for expensive design services.

Following our IPO in November 2013, we issued and sold a total of 6,325,786 ordinary shares at a price per share of \$16.50, resulting in net proceeds to us of approximately \$93.6 million.

In 2017, we achieved significant growth as compared to 2016 as our registered users and premium subscriptions continued to increase and we continued to benefit from our expanded product offerings. Our revenue was \$425.6 million in 2017, which represented an increase of 47% from 2016. Our future growth will depend, in part, on our ability to grow our registered user base and premium subscriptions and increasing user and subscription retention as well as to maintain and enhance our brand and reputation. It will also depend in part on our ability to manage the growth of our infrastructure effectively and adapt to changes to technologies used in our solutions.

In 2018, we expect to continue to invest in long-term growth by continuing to invest significantly in our research and development efforts to expand our offering and enhance user experience. In addition, we expect to continue to expand our marketing activities both in the United States and internationally. We also expect to continue to make significant expenditures to upgrade our technology and network infrastructure to enable the release of offerings and applications and to scale for future growth. To support these efforts, we expect to increase our workforce which will result in an increase of headcount related expenses, including share-based compensation.

#### How We Generate Revenues

We derive the substantial majority of our revenue from monthly, annual and longer-termed premium subscriptions for our solutions. Annual and longer-termed subscriptions provide benefits to our operating model because we are able to collect cash up front, increase overall retention rates and have greater visibility into revenues. As a result, we provide incentives to drive annual and longer-termed subscriptions, including a lower average monthly price relative to a monthly subscription. We have noticed, however, that promotions that further lower the effective price of an annual subscription can result in attracting users who do not renew their subscription once the promotion is no longer available. We therefore seek to strike a balance between attracting annual subscriptions and maintaining a registered user base that is loyal to our offering. As of December 31, 2017, 82% of our overall premium subscriptions were one-year, two-year or three-year subscriptions and 18% were monthly subscriptions.

In addition, we generate revenues from selling third-party domain registrations and from revenue sharing agreements we have with Google email services and with other third-party developers for apps sold through our App Market. We launched our App Market in the last quarter of 2012 and therefore generated negligible revenues from it in 2013 and 2014 and generated revenues of \$2.8 million, \$5.9 million and \$8.5 million in 2015, 2016 and 2017, respectively. Our solutions are offered through a freemium model in which users can register with an e-mail address and build, launch and manage a digital presence for free for an unlimited amount of time. A premium subscription, which provides registered users with additional solutions such as, Wix ad removal, access to Google Analytics, domain connectivity and eCommerce solutions, can be purchased at any time. Because we increase our pipeline of potential premium subscriptions by acquiring more registered users and over half of the new premium subscriptions in a typical month in recent periods were generated by registered users who registered in previous months, we are focused on building a large user base. The number of new registered users we attract is therefore a key factor in growing our premium subscription base, which drives our revenues and collections. Users that purchase premium subscriptions often decide to do so several months, quarters or years after initially registering with us. Thus, in each period, new premium subscriptions include users who registered in that period as well as users who initially registered with us in previous periods. We believe this characteristic of our business model provides us with a growing pipeline of potential subscriptions as our user base grows.

## User Acquisition Spending

A majority of the premium subscriptions generated by users that registered during 2017 came from organic and direct sources, meaning visitors that reached us via unpaid search results or by typing the URL of our website in their browser. Our selling and marketing spending to attract additional new registered users focuses primarily on online advertising. The types of paid marketing channels that we target are primarily cost-per-click advertisements on search engines and social networking sites and targeted and generic banner advertisements on other sites. A portion of our marketing expenses are directed towards more traditional advertising, such as sponsorships and television commercials mainly in the United States.

Our registered user acquisition strategy is based on the significant amounts of data that we have accumulated regarding the behavior of registered users that we acquire from different sources. We extrapolate from this historical user behavior data to predict future user behavior and make investment decisions regarding our marketing expenditures. In order to growing our registered user base and in turn our premium subscriptions, we consider the time period over which we seek to return an amount of collections equal to the marketing expenditures used to attract a specific group of registered users during a particular period, which we refer to as a cohort. In order to achieve the targeted time for return on those marketing investments, we adjust the paid marketing channels that we use and the amounts that we pay to acquire new registered users in addition to considering those registered users that come from organic and direct sources. For example, we could pay a substantially identical amount to acquire fewer registered users that generate premium subscriptions at a higher rate versus acquiring more registered users that generate premium subscriptions at a lower rate. The net amount of premium subscriptions would be the same, but in the former case we would have acquired fewer new registered users overall. We prefer the latter case due to the benefit of gaining more registered users and having a larger pipeline of registered users that can generate premium subscriptions over time based on the long “tail” of premium subscriptions that each cohort generates. This larger number of registered users also creates more overall users of our platform who can recommend others to our site. In addition, a single registered user can purchase multiple premium subscriptions. This fact, coupled with our preference to grow the size of our user base even if the rate of purchase of premium subscriptions is lower, is why we do not consider the rate at which registered users purchase a premium subscription (or any other measure of “conversion”) to be a meaningful measure of the success of our business.

Since we target our marketing investments by extrapolating from historical user behavior to predict future user behavior, an event that disrupts that behavior can adversely impact the returns that we projected for a particular cohort. For example, an event such as a change to or a bug in a browser that affects all websites viewed on that browser, including websites created using our platform, can adversely impact user behavior and in turn our projected returns. Moreover, significant announcements by third parties can also have the same effect. For example, an announcement by Adobe to stop supporting Flash on mobile devices when our platform was Flash-based only, in the past caused us to attract less new registered users than we projected during the short-term impact of such announcement.

## Premium Subscription Origination Analysis

To track our growth, progress and execution of marketing efforts, including achievement of our targeted time for return on marketing investment, we regularly review the relationship between origination of our registered users and origination of premium subscriptions.

### First Quarter 2010 User Cohort

The following chart summarizes the number of premium subscriptions that originated during each quarterly period, from the first quarter of 2010 to the fourth quarter of 2017, from the 919,221 registered users that first registered with us in the first quarter of 2010. We refer to this group of registered users as our first quarter 2010 User Cohort. The first quarter 2010 User Cohort is representative of trends we have seen in premium subscription originations, and we believe it is consistent with our registered users' subscription purchasing behavior in recent periods.

Through December 31, 2017, the first quarter 2010 User Cohort generated a total of 96,067 new premium subscriptions and continued to generate premium subscriptions up through and during the first quarter of 2018.

### Premium Subscriptions from First Quarter 2010 User Cohort



## Historical First Quarter User Cohort Overview

The following chart summarizes the number of active premium subscriptions at the end of each quarter following the creation of each of our first quarter user cohorts for the years 2010 - 2017. We observe apparent consistency in other quarterly user cohorts, which enables us to make efficient marketing investments.

As indicated in the following chart with respect to the first quarter 2010 User Cohort, at the end of this quarter, there were 18,513 active premium subscriptions that had been purchased by registered users from the first quarter 2010 User Cohort. Thirty-two (32) quarters later, as of December 31, 2017, there were still 17,712 active premium subscriptions from registered users that originated from this same cohort. We spent approximately \$1.1 million in advertising expenses to acquire this user cohort. Since originating, premium subscriptions from registered users in this cohort have resulted in aggregate revenues recognized of \$18.8 million and \$19.2 million in collections through the fourth quarter of 2017. Approximately \$1.0 million of deferred revenue relating to purchases by this user cohort remained outstanding at December 31, 2017. Furthermore, this cohort continues to generate revenue and collections beyond that date.

Throughout the life of this cohort, registered users have exhibited many different behaviors that result in a greater number of active premium subscriptions 32 quarters after the cohort's creation compared to the number of active premium subscriptions after just its first quarter of existence. Some registered users account for multiple premium subscriptions that are purchased throughout the cohort's life. For example, registered users who are professional web designers often use our platform to support their business, building and designing sites for their own customers. Some registered users may cancel a premium subscription because the site is no longer needed and repurchase a subscription several quarters later. For example, a site created for an event that has occurred or a business that discontinues is no longer needed, but the registered user may repurchase a subscription for another event or a new business he creates in a subsequent quarter or year. Some registered users may create and publish a free website only to purchase their first premium subscription many quarters after first becoming a registered user with Wix.

We believe these behaviors and trends that result in the existence of more premium subscriptions thirty-two (32) quarters after the initial quarter's active premium subscriptions demonstrates the loyalty of our registered users and the increasing value of our registered user base as we continue to increase the number of our registered users, and supports our election to invest in marketing to acquire a user cohort and generate premium subscriptions over several quarters and years.

## Key Financial and Operating Metrics

We monitor the following key operating and financial metrics to evaluate the growth of our business, measure the effectiveness of our marketing efforts, identify trends affecting our business, formulate financial projections and make strategic decisions:

### Collections

We define collections as total cash collected by us from our customers in a given period. Collections is calculated by adding the change in deferred revenues for a particular period to revenues for the same period. Collections consists primarily of amounts from annual, multi annual and monthly premium subscriptions by registered users, which are deferred and recognized as revenues over the terms of the subscriptions and payments by our registered users for domains, which are also recognized ratably over the term of the service period. We believe that collections is a leading indicator of the growth of our overall business. Collections is a non-GAAP financial measure. For a reconciliation of collections to the most directly comparable U.S. GAAP measure, see “Item 3.A. Key Information—Selected Financial Data.”

### Free cash flow

We define free cash flow as cash flow from operating activities minus capital expenditures. We believe that free cash flow is useful in evaluating our business because free cash flow reflects the cash surplus available or used to fund the expansion of our business after the payment of capital expenditures relating to the necessary components of ongoing operations. Free cash flow is currently negative because of the substantial investments that we are making in expanding our business. Free cash flow is a non-GAAP financial measure. For reconciliation of free cash flow to the most directly comparable U.S. GAAP measure, see “Item 3.A. Key Information—Selected Financial Data.”

### Number of registered users at period end

We define this metric as the total number of users, including those who have purchased premium subscriptions, who are registered with Wix.com with a unique e-mail address at the end of the period. The length of time that users take following registration to design and publish a website varies significantly from hours to years, and many registered users never publish a website. We view the number of registered users at the end of a given period as a key indicator of the attractiveness and usability of our product, as well as the strength of our pipeline that can generate premium subscriptions over time. We believe that growth in premium subscriptions will be driven significantly by our ability to add registered users to our platform and to further enhance our product and service offerings.

## Number of premium subscriptions at period end

We define this metric as the total monthly and annual premium subscriptions as of the end of the period. A single registered user can purchase multiple premium subscriptions. Because we derive the majority of our revenues and collections from premium subscriptions, we believe that this is a key metric in understanding our growth. The total number of premium subscriptions is also impacted by the renewal rates of our existing premium subscriptions. Premium subscriptions terminate due to an active decision by a registered user not to renew their subscription or due to the failure of a registered user to update his or her credit card information upon expiration or termination. Our renewal rates demonstrate our strong value proposition to our premium subscriptions. We observe the average renewal rates of the cohorts of our users with premium subscriptions to measure the effectiveness of our platform and satisfaction of our registered users. We measure the retention of our premium subscriptions on a cohort basis. Subscriptions that are terminated are replaced by new subscriptions from users from the same cohort, generally at a similar rate. As observed in our first quarter 2010 user cohort, there is a similar number of active subscriptions in such cohort at the end of 2017 than existed when the cohort was acquired 32 quarters ago. We believe this demonstrates our strong renewal rates and our ability to replace terminated subscriptions with new subscriptions from the same cohort.

### A. Operating Results

The information contained in this section should be read in conjunction with our consolidated financial statements for the year ended December 31, 2017 and related notes and the information contained elsewhere in this annual report. Our financial statements have been prepared in accordance with U.S. GAAP.

#### Components of Statements of Operations

##### Revenues

##### Sources of Revenues

We derive the substantial majority of our revenues from monthly, annual and multi annual premium subscriptions purchased by businesses, organizations, professionals and individuals, which include benefits such as Wix ad removal, access to Google Analytics, domain connectivity and other benefits such as eCommerce solutions, depending on the subscription.

We derive a small portion of our revenues from selling third-party domain registrations. Revenues from domain name registrations accounted for approximately 7% of revenues in 2015, approximately 7% of revenues in 2016 and approximately 7% of revenues in 2017. We also derive a small portion of our revenues from our App Market consisting of revenues derived from sharing agreements with third parties pursuant to which we receive a portion of the collected revenues of any app to which our registered users subscribe and also revenues from our own self developed apps. Revenues from our App Market accounted for an insignificant portion of revenues in 2015, 2016 and 2017. We plan to increase the number of value-added services that we offer and the associated revenues we derive from these services.

## Payment and Revenue Recognition

Revenues from premium subscriptions and domain name registrations are recognized ratably over the term of the service period. We offer new premium subscription packages for a 14-day refund period during which the registered user can cancel the subscription at any time and receive a full refund. We classify such amounts collected from new subscriptions as customer deposits until the end of the 14-day refund period. After the 14-day refund period has ended, we recognize premium subscription revenues ratably over the term of the service period, either monthly or annually. We do not offer trial periods for domain name registrations. Substantially all deferred revenues consist of amounts received from premium subscriptions and other selected services provided by third parties on our platform and domain registration sales that are not yet recognized as revenues. For revenues from apps developed by third-party app developers, we account on a net basis by recognizing only the commission we retain from each sale. We do not reflect in our financial statements the portion of the gross amount billed to registered users with apps that we remit to third-party app developers. App Market revenues which are derived from our own self developed apps are recognized on a gross basis. We recognize revenues from App Market ratably over the term of the service period, either monthly or annually. See “—Application of Critical Accounting Policies and Estimates—Revenue Recognition.”

We bill our premium subscriptions in advance through our registered users’ credit or debit cards, wires, e-wallets and other forms of payment. We use a billing system, which provides a portal for registered users to submit credit or debit card information for processing. Payment occurs after the credit card information entered for the transaction passes through the validation and verification process of the billing system and third-party billing providers and processors.

## Geographic Breakdown of Revenues

The following table sets forth the geographic breakdown of revenues for the periods indicated:

	Year Ended					
	December 31,					
	2015	2016	2017			
North America	51 %	50 %	52 %			
Europe	27	27	26			
Latin America	9	9	9			
Asia and Others	13	14	13			
Total	100%	100 %	100 %			

The percentage of revenues derived from outside of North America may increase over time as we continue to further penetrate internationally. Additional international adoption of our solutions and services is driven by our ability to offer our platform in local languages and offer local billing solutions. When penetrating new markets, we first focus on establishing an operational online billing system, if needed, prior to launching and investing in local marketing activities. We currently offer our platform in seventeen languages - English, French, Spanish, Portuguese, Italian, Russian, German, Japanese, Korean, Polish, Dutch, Turkish, Hindi, Norwegian, Swedish, Danish and Czech and we plan to add more languages in the future. We have historically launched our platform in new markets without the need for local support staff.

## Costs and Expenses

### Cost of Revenues

Cost of revenues consists primarily of costs directly associated with the provision of services, namely, bandwidth and hosting costs for our platform, customer support software solutions and related call center costs along with domain name registration costs. Cost of revenues also consists of personnel and the related overhead costs, including share-based compensation. We expect cost of revenues to increase with the increase in the number of registered users

but to slightly decrease as a percentage of revenues.

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## Research and Development

Research and development expenses consist primarily of personnel and the related overhead costs, including share-based compensation, related to our solutions and service development activities including new initiatives, quality assurance and other related development activities. We expect research and development costs and expenses to continue to increase on an absolute basis as we develop new solutions and add functionalities to our existing solutions and services and expand our offerings including mobile and other solutions. We expect research and development costs and expenses to decrease as a percentage of revenues.

## Selling and Marketing

Our primary operating expense is selling and marketing. The significant majority of our selling and marketing expenses are user acquisition costs, which consist primarily of fees paid to third parties for our cost-per-click advertising, social networking and marketing campaigns and other media advertisements. We intend to continue expanding our user acquisition efforts to drive revenue growth while focusing on our return-on-investment targets. In addition, we direct a significant portion of our marketing expenses towards more traditional advertising, including television commercials. Other selling and marketing expenses also consist primarily of personnel and the related overhead costs, including share-based compensation for personnel engaged in marketing, advertising and promotional activities. Our marketing expenses also include billing costs in connection with the processing fee of our collections. We expect our selling and marketing expenses to increase on an absolute basis as we penetrate our existing markets and expand to new markets, hire additional personnel and increase our business and collections, but expect it to decrease as a percentage of collections.

## General and Administrative

General and administrative expenses primarily consist of personnel and overhead related costs, including share-based compensation, for our executive, finance, human resources and administrative personnel. General and administrative expenses also include legal, accounting and other professional service fees and other corporate expenses. We expect our general and administrative expenses to increase on an absolute basis as we penetrate our existing markets and expand to new markets, hire additional personnel and incur additional costs related to the growth of our business. We also incur costs associated with being a public company in the United States, including compliance under the Sarbanes-Oxley Act of 2002 and rules promulgated by the SEC and NASDAQ, and director and officer liability insurance.

## Financial Income (Expenses), Net

Financial income (expenses), net consists primarily of costs related to derivative instruments we enter into for foreign exchange transactions to hedge a portion of our payments in NIS and revenue transactions denominated in euros and British pounds, as well as income and expenses related to the change in the fair value of such derivative instruments. In addition, financial income (expenses), net includes the fluctuation in value due to foreign exchange differences between our monetary assets and liabilities denominated in NIS.

## Taxes on Income

Taxes on income consist mainly of taxes we pay or accrue due to our international activity. As of December 31, 2017, we had not yet generated taxable income in Israel. At the end of our last fiscal year, our net operating loss carry forwards for Israeli tax purposes amounted to approximately \$121.5 million. After we utilize our net operating loss carry forwards, we are eligible for certain tax benefits in Israel under the Law for the Encouragement of Capital Investments, 1959, or the Investment Law. Accordingly, if we generate taxable income in Israel during the benefit period, we expect our effective tax rate will be lower than the standard corporate tax rate for Israeli companies, which was 26.5% in 2015, 25% in 2016, 24% in 2017 and will be 23% in 2018 and thereafter. Our benefit period currently

ends in 2020. Our taxable income generated outside of Israel or derived from other sources in Israel which is not eligible for tax benefits will be subject to the regular corporate tax rate. For more information about the tax benefits available to us as a Beneficiary Enterprise, see “Item 10.E. Taxation.”

## Comparison of Period to Period Results of Operations

The following table sets forth our results of operations in dollars and as a percentage of revenues for the periods indicated:

	Year Ended December 31, 2015		2016		2017	
	% of		% of		% of	
	Amount	Revenues	Amount	Revenues	Amount	Revenues
	(in USD thousands)					
Revenues	203,518	100.0	290,103	100.0	425,636	100.0
Cost of revenues	34,970	17.2	45,287	15.6	69,391	16.3
Gross profit	168,548	82.8	244,816	84.4	356,245	83.7
Operating expenses:						
Research and development	77,647	38.2	105,368	36.3	153,635	36.1
Selling and marketing	120,010	59.0	156,512	54.0	204,435	48.0
General and administrative	19,526	9.6	26,968	9.3	48,186	11.3
Total operating expenses	217,183	106.7	288,848	99.6	406,256	95.4
Operating loss	(48,635 )	(23.9 )	(44,032 )	(15.2 )	(50,011 )	(11.7 )
Financial income (expenses), net	77	0.0	247	0.1	(5,015 )	(1.2 )
Other income (expenses)	(11 )	(0.0 )	(4 )	(0.0 )	76	0.0
Loss before taxes on income	(48,569 )	(23.9 )	(43,789 )	(15.1 )	(54,950 )	(12.9 )
Taxes on income	2,765	(1.4 )	3,107	(1.1 )	1,323	(0.3 )
Net loss	(51,334 )	(25.3 )	(46,896 )	(16.2 )	(56,273 )	(13.2 )

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

## Revenues and Collections

Revenues increased by \$135.5 million, or 46.7%, from \$290.1 million in 2016 to \$425.6 million in 2017. The substantial majority of this increase was driven by 31% growth in the number of premium subscriptions from 2,465,160 as of December 31, 2016 to 3,223,036 as of December 31, 2017. The number of premium subscriptions continued to be favorably impacted by increasing availability of our new products and solutions as well as the increase in marketing expenses.

Collections increased by \$141.9 million, from \$342.1 million in 2016 to \$484.0 million in 2017. This increase was primarily due to an increase in premium subscriptions from 2,465,160 to 3,223,036.



## Costs and Expenses

### Cost of Revenues

Cost of revenues increased by \$24.1 million, or 53.2%, from \$45.3 million in 2016 to \$69.4 million in 2017. This increase was primarily attributable to an increase of \$8.6 million in bandwidth and hosting costs, an increase of \$3.5 million in domain name costs and increase of \$6.6 million in payroll expenses, consisting of \$5.5 million due to increased headcount from 245 to 435 and \$1.1 million in share-based compensation expense, and increase of \$5.4 million related to allocate overhead expenses and other costs due to expanded activities.

### Research and Development

Research and development expenses increased by \$48.3 million, or 45.8%, from \$105.4 million in 2016 to \$153.6 million in 2017. This increase was primarily attributable to an increase of \$37.6 million in payroll, subcontractors and consultant fees, consisting of \$25.9 million due to increased headcount from 778 to 1061 to support our development plans and \$11.7 million in share-based compensation expense. Also an increase of \$2.9 million related to acquisition related expenses and due to an increase of \$7.8 million related to allocated overhead expenses and other development costs due to expanded activities.

### Selling and Marketing

Selling and marketing expenses increased by \$47.9 million, or 30.6%, from \$156.5 million in 2016 to \$204.4 million in 2017. This increase was primarily attributable to an increase of \$28.1 million in user acquisition costs and other marketing activities from \$113.2 million in 2016 to \$141.3 million in 2017 due to the expansion of advertising activities for our products and services, primarily via more online advertising. It also resulted from an increase of \$11.0 million in payroll expenses consisting of an increase of \$9.0 million due to increased headcount from 228 to 334 and an increase of \$2.0 million in share-based compensation expense, an increase of \$3.8 million in processing costs of our collections, an increase of \$2.6 million related to amortization and acquisition related expenses and an increase of \$2.4 million in related allocated overhead expenses.

### General and Administrative

General and administrative expenses increased by \$21.2 million, or 78.7%, from \$27.0 million in 2016 to \$48.2 million in 2017. This increase was primarily attributable to an increase of \$12.6 million in payroll expenses, consisting of \$7.8 million due to increased headcount from 110 to 204, and \$4.8 million in share-based compensation expense. The increase was also due to an increase of \$0.4 million in legal and audit costs and an increase of \$2.0 million related to acquisition related expenses and an increase of \$6.2 million related to allocated overhead expenses and other costs primarily associated with consulting fees and services incurred as a result of being a public company.

### Financial Income (Expenses), Net

Financial expenses, net increased by \$5.3 million from net financial income of \$0.3 million in 2016 to net financial expenses of \$5.0 million in 2017. Financial expenses in 2017 primarily related to \$7.1 million due to hedging activity expenses offset by income of \$1.2 million due to exchange rate differences and income of \$0.9 million due to interest income.

## Taxes on Income

Taxes on income decrease by \$1.8 million from \$3.1 million in 2016 to \$1.3 million in 2017. The decrease was primarily attributable to an increase of net income of \$2.6 million related to deferred tax assets due to the acquisition of DeviantArt and the new tax reform in the US. The decrease was offset by increase of \$0.8 million in tax expenses primarily to Brazil tax expenses.

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

### Revenues and Collections

Revenues increased by \$86.6 million, or 42.5%, from \$203.5 million in 2015 to \$290.1 million in 2016. The substantial majority of this increase was driven by 39% growth in the number of premium subscriptions from 1,767,423 as of December 31, 2015 to 2,465,160 as of December 31, 2016. The number of premium subscriptions continued to be favorably impacted by increasing availability of our new products and solutions as well as the increase in marketing expenses.

Collections increased by \$100.4 million, from \$241.7 million in 2015 to \$342.1 million in 2016. This increase was primarily due to an increase in premium subscriptions from 1,767,423 to 2,465,160.

### Costs and Expenses

#### Cost of Revenues

Cost of revenues increased by \$10.3 million, or 29.5%, from \$35.0 million in 2015 to \$45.3 million in 2016. This increase was primarily attributable to an increase of \$4.2 million in bandwidth and hosting costs, an increase of \$3.2 million in domain name costs and increase of \$1.7 million in payroll expenses comprised of increase of \$1.2 million due to shifting from Part time employees to full time employees and \$0.5 million in share-based compensation expense, and increase of \$1.2 million related to allocated overhead expenses and other costs due to expanded activities.

#### Research and Development

Research and development expenses increased by \$27.7 million, or 36%, from \$77.6 million in 2015 to \$105.4 million in 2016. This increase was primarily attributable to an increase of \$20.1 million in payroll, subcontractors and consultant fees, consisting of \$14.8 million due to increased headcount from 609 to 778 to support our development plans and \$5.3 million in share-based compensation expense. The increase was also due to an increase of \$7.6 million related to allocated overhead expenses and other development costs due to expanded activities.

## Selling and Marketing

Selling and marketing expenses increased by \$36.5 million, or 30%, from \$120.0 million in 2015 to \$156.5 million in 2016. This increase was primarily attributable to an increase of \$25.6 million in user acquisition costs and other marketing activities from \$87.6 million in 2015 to \$113.2 million in 2016 due to the expansion of advertising activities for our products and services, primarily via more traditional advertising, including radio and television commercials. It also resulted from an increase of \$5.2 million in payroll expenses consisting of an increase of \$3.7 million due to increased headcount from 183 to 228 and an increase of \$1.5 million in share-based compensation expense, an increase of \$3.3 million in processing costs of our collections and an increase of \$2.4 million in related allocated overhead expenses.

## General and Administrative

General and administrative expenses increased by \$7.5 million, or 38%, from \$19.5 million in 2015 to \$27.0 million in 2016. This increase was primarily attributable to an increase of \$5.2 million in payroll expenses, consisting of \$3.1 million due to increased headcount from 75 to 110, and \$2.1 million in share-based compensation expense. The increase was also due to an increase of \$0.5 million in legal and audit costs and an increase of \$1.8 million related to allocated overhead expenses and other costs primarily associated with consulting fee and services as public company.

## Financial Income (Expenses), Net

Financial income, net increased by \$0.2 million from net financial expenses of \$0.1 million in 2015 to net financial income of \$0.3 million in 2016. Financial expenses in 2016 amounted to \$1.3 million primarily related to \$1.1 million due to exchange rate differences. Financial income in 2016 amounted to \$1.6 million of which \$0.7 million were in connection with the hedging transactions activity and \$0.9 million in interest income.

## Taxes on Income

Taxes on income increased by \$0.3 million from \$2.8 million in 2015 to \$3.1 million in 2016. Taxes on income for 2016 were comprised of \$2.1 million in taxes in Brazil, \$0.8 million in taxes in the United States and \$0.4 million in taxes related to the Israeli subsidiaries.

## Application of Critical Accounting Policies and Estimates

Our accounting policies and their effect on our financial condition and results of operations are more fully described in our consolidated financial statements included elsewhere in this annual report. We have prepared our financial statements in conformity with U.S. GAAP, which requires management to make estimates and assumptions that in certain circumstances affect the reported amounts of assets and liabilities, revenues and expenses and disclosure of contingent assets and liabilities. These estimates are prepared using our best judgment, after considering past and current events and economic conditions. While management believes the factors evaluated provide a meaningful basis for establishing and applying sound accounting policies, management cannot guarantee that the estimates will always be consistent with actual results. In addition, certain information relied upon by us in preparing such estimates includes internally generated financial and operating information, external market information, when available, and when necessary, information obtained from consultations with third-parties. Actual results could differ from these estimates and could have a material adverse effect on our reported results. See "Item 3.D. Risk Factors" for a discussion of the possible risks which may affect these estimates.

We believe that the accounting policies discussed below are critical to our financial results and to the understanding of our past and future performance, as these policies relate to the more significant areas involving management's estimates and assumptions. We consider an accounting estimate to be critical if: (1) it requires us to make assumptions because information was not available at the time or it included matters that were highly uncertain at the

time we were making our estimate; and (2) changes in the estimate could have a material impact on our financial condition or results of operations.

## Revenue Recognition

We derive most of our revenues from monthly and annual premium subscriptions. We derive a portion of our revenues from selling third-party domain registration. We also derive a portion of our revenues from our App Market consisting of revenues derived from sharing agreements with third parties pursuant to which we receive a portion of the collected revenues of any app to which our registered users subscribe and also from our own self developed apps.

We recognize revenues in accordance with ASC No. 605-10-S99, (SEC Staff Accounting Bulletin No. 104, “Revenue Recognition”), when (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been rendered to the customer, (iii) the fee is fixed or determinable, and (iv) collectability is reasonably assured.

Revenues related to services for websites and the purchase and registration of domain names are recognized ratably over the term of the service period. Revenues related to apps developed by third-party developers or our own self developed apps are also recognized ratably over the term of the service period. We account on a net basis for revenues related to third party apps in our App Market by recognizing the commission we retain from each sale. The portion of the gross amount billed to registered users that is remitted by us to third-party app developers is not reflected in our consolidated statements of operations.

We typically offer new premium subscription packages for a 14-day refund period during which the registered user can cancel the subscription at any time and receive a full refund. We consider such amounts collected from new premium subscriptions as customer deposits until the end of the 14-day refund period. After the 14-day refund period has ended, we recognize premium subscription revenues ratably over the term of the service period, either monthly or annually. We do not offer trial periods for domain name registrations and certain other services. Deferred service revenues primarily include unearned amounts received from customers but not recognized as revenues.

Although in general, we do not grant rights of refund other than the 14-day refund period mentioned above, there are certain instances where such refunds occur. Since we collect most of our revenues through online credit card billing, a small portion of our registered users elect to chargeback due to disputes over the credit card statements and/or claims of false transaction, and accordingly ask for refunds. We maintain a provision for chargebacks and refunds in accordance with ASC No. 605, “Revenue Recognition,” which we estimate based primarily on historical experience as well as management judgment and is recorded through a reduction of revenues.

A portion of our revenue transactions include multiple elements within a single contract if it is determined that multiple units of accounting exist. Accounting Standards Update, or ASU , No. 2009-13, “Multiple-Deliverable Revenue Arrangements, (amendments to ASC Topic 605, Revenue Recognition)”, or ASU No. 2009 - 13, requires entities to allocate revenue in an arrangement using estimated selling prices of the delivered goods and services based on a selling price hierarchy. The amendments eliminate the residual method of revenue allocation and require revenue to be allocated using the relative selling price method.

The primary types of transactions in which we engage for which ASU No. 2009-13 is applicable are agreements that include multiple elements which are delivered at different points in time. Such elements may include some or all of the following:

- services for websites; and
- purchase and registration of domain names.

We consider the sale of each of the above stated elements in bundled agreement to be a separate unit of accounting for the arrangement and defer the relative sales price of the undelivered element to the period in which revenue is earned.

Pursuant to the guidance under ASU No. 2009-13, when a sales arrangement contains multiple elements, the Company allocates revenue to each element based on a selling price hierarchy. The selling price for a deliverable is based on its VSOE if available, third-party evidence, or TPE, if VSOE is not available, or estimated selling price, or ESP if neither VSOE nor TPE is available. VSOE of selling price is based on the price charged when the element is sold separately. In determining VSOE, it is required that a substantial majority of the selling prices fall within a reasonable range based on historical discounting trends for specific services. TPE of selling price is established by evaluating largely interchangeable competitor services in stand-alone sales to similarly situated customers.

Monthly and annual premium subscriptions and domain name registrations are sold separately and therefore the selling price (VSOE) is based on stand-alone transaction.

In May 2014, the FASB issued ASU 2014-09 Guidance on Revenue from Contracts (Topic 606) with Customers that will supersede the existing revenue recognition guidance and clarify the principles for recognizing revenue.

The core principle is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services.

The guidance determines a five-step model for recognizing revenue from contracts with customers:

1. Identifying the contract;
2. Identifying performance obligations;
3. Determining the transaction price;
4. Allocating the transaction price to separate performance obligations; and
5. Recognizing revenue

Other major provisions include, among others, consideration of the time value of money in the transaction price and requiring estimates of variable consideration. The guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

The effective date was deferred for one year to the interim and annual periods beginning on or after December 15, 2017.

The most significant impact of the standard relates to our accounting for revenue from Domain Names and Third Party Apps. Specifically, under the new standard, we will recognize revenues from Domain Names and Third Party Apps at the time of billing and delivery rather than over the life of the good or service, since in both cases, control is transferred to the customer upon delivery. Revenue recognition related to all other performance obligations remains substantially unchanged.

In addition, allocation of the consideration between the different performance obligations would be made according to relative standalone selling prices, rather than the residual method.

The standard permits either a full retrospective or a modified retrospective approach for the adoption. The Company adopted the standard on January 1, 2018, using the modified retrospective method of adoption which means that the cumulative impact of the adoption will be recognized in retained earnings as of January 1, 2018 and that comparatives will not be restated. The adjustment to retained earnings to be approximately \$14.7 million, net due to earlier revenue recognition of Domain Names and Third Party Apps in amount of \$28.1 million offset by deferred Domain Name costs in amount of \$13.4 million.



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The following table presents the theoretical effect to our income statement as of December 31, 2017.

	Year ended		
	December 31,		
	2017	2017	2017
	ASC 605	ASC 606	Impact
Revenues	\$425,636	\$432,615	\$6,979
Cost of revenues	69,391	72,230	2,839
Gross profit	356,245	360,385	4,140
Operating expenses:			
Research and development	153,635	153,635	-
Selling and marketing	204,435	204,435	-
General and administrative	48,186	48,186	-
<u>Total</u> operating expenses	406,256	406,256	-
Operating loss	(50,011 )	(45,871 )	4,140
Financial income (expenses), net	(5,015 )	(5,015 )	-
Other expenses	76	76	-
Loss before taxes on income	(54,950 )	(50,810 )	4,140
Taxes on income	1,323	1,323	-
Net loss	\$(56,273 )	\$(52,133 )	4,140
Basic and diluted net loss per ordinary share	\$(1.24 )	\$(1.15 )	\$0.09

#### Share-Based Compensation

Under U.S. GAAP, we account for our share-based compensation for employees in accordance with the provisions of the Financial Accounting Standards Board's Accounting Standards Codification Topic 718 "Compensation—Stock Based Compensation", or ASC No. 718, which requires us to measure the cost of options based on the fair value of the award on the grant date. The Company also applies ASC No. 718 and ASC No. 505-50 "Equity Based Payments to Non-Employees", or ASC No. 505-50 with respect to options issued to non-employee consultants.

We selected the Black-Scholes-Merton option pricing model as the most appropriate method for determining the estimated fair value of our share-based awards. The resulting cost of an equity incentive award is recognized as an expense over the requisite service period of the award, which is usually the vesting period. We recognize compensation expense over the vesting period using the straight-line method and classify these amounts in the consolidated financial statements based on the department to which the related employee reports.



The determination of the grant date fair value of options using an option pricing model is affected by estimates and assumptions regarding a number of complex and subjective variables. These variables include the expected volatility of our share price over the expected term of the options, share option exercise and cancellation behaviors, risk-free interest rates and expected dividends, which are estimated as follows:

·Fair Value of our Ordinary Shares

Prior to the completion of our IPO, due to the absence of an active market for our ordinary shares, the fair value of our ordinary shares for purposes of determining the ordinary share fair value for award grants was determined in good faith by our management and approved by our board of directors. After November 6, 2013, the date our ordinary shares began trading on NASDAQ, the grant date fair value for share-based awards is based on the closing price of our ordinary shares on NASDAQ on the date of grant and fair value for all other purposes related to share-based awards is the closing price of our ordinary shares on NASDAQ on the relevant date.

·Expected Term

The expected option term represents the period of time that options granted are expected to be outstanding. For option awards which were at the money when granted (plain vanilla options), it is determined based on the simplified method in accordance with ASC No. 718-10-S99-1 SAB No. 110, as adequate historical experience is not available to provide a reasonable estimate. The simplified method will continue to apply until enough historical experience is available to provide a reasonable estimate of the expected term. For option awards which were in the money when granted, a binomial model was used to determine the expected term as an input to the Black-Scholes-Merton option pricing model

·Volatility

The expected share price volatility was based on the historical equity volatility of the ordinary shares of comparable companies that are publicly traded and our historical equity volatility.

·Risk-free Rate

The risk-free interest rate is based on the yield from U.S. Treasury zero-coupon bonds with a term equivalent to the contractual life of the options.

·Dividend Yield

We have never declared or paid any cash dividends and do not presently plan to pay cash dividends in the foreseeable future. Consequently, we used an expected dividend yield of zero.

·Forfeiture Rate

We estimate the expected forfeiture rate and only recognize expense for those shares expected to vest. We estimate the forfeiture rate based on historical experience. To the extent our actual forfeiture rate is different from our estimate, share-based compensation expense is adjusted accordingly.

If any of the assumptions used in the Black-Scholes-Merton model change significantly, share-based compensation for future awards may differ materially compared with the awards granted previously.

We account for options issued to non-employees in accordance with the guidance of ASC No. 505-50 for equity-based payments to non-employees. Share option awards to non-employees are accounted for at fair value using the Black-Scholes option-pricing model. Our management believes that the fair value of share options is more reliably measured than the fair value of the services received. The fair value of the unvested portion of the options granted to non-employees is re-measured each period. The resulting increase in value, if any, is recognized as expense during the period the related services are rendered. The fair value of each non-employee share-based compensation award is re-measured each period until a commitment date is reached, which is generally the vesting date.

We also award RSUs to certain of our employees, officers and directors. At the time of vesting these awards are settled in shares. Awards settled in shares are accounted for based on the fair market value at the time of grant while awards settled in cash are accounted for based on the fair market value at the time of vesting.

We also award options that are subject to certain performance criteria: accordingly, compensation expense is recognized for such awards when it becomes probable that the related performance condition will be satisfied. The company recognizes compensation expenses for the value of awards granted based on the accelerated method for performance based awards.

The total non-cash share-based compensation expense we recognized in our consolidated statement of operations was \$18.7 million, \$28.0 million and \$47.7 million in the years ended December 31, 2015, 2016 and 2017, respectively.

#### Derivatives and Hedging

We account for derivatives and hedging based on ASC 815 “Derivatives and Hedging”, or ASC 815, which requires us to recognize all derivatives on the balance sheets at their fair value.

For those derivative instruments that are designated and qualify as hedging instruments, a company must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge, cash flow hedge or a hedge of a net investment in a foreign operation.

##### ·Derivative instruments designated as hedging instruments

For derivative instruments that are designated and qualify as a cash flow hedge (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive loss and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The remaining gain or loss on the derivative instrument in excess of the cumulative change in the present value of future cash flows of the hedged item, if any, is recognized in current earnings during the period of change. For derivative instruments not designated as hedging instruments, the gain or loss is recognized in current earnings during the period of change. To hedge against the risk of overall changes in cash flows resulting from foreign currency salary payments, rent and other overhead vendors during the year, we had instituted a foreign currency cash flow hedging program. We hedge portions of our forecasted salary, rent and other overhead cash flow denominated in NIS. These option contracts are designated as cash flow hedges, as defined by ASC No. 815, and are all effective, based on third party valuations.

##### ·Derivative instruments not designated as hedging instruments

In addition to the derivatives that are designated as hedges, we also enter into certain foreign exchange forward and option transactions to economically hedge a portion of our payments in NIS and certain revenue transactions in Euros, British pounds, Brazilian Real, Mexican Pesos and Japanese Yen. Gains and losses related to such derivative instruments are recorded in financial income (expenses), net.



## Income Taxes

As part of the process of preparing our consolidated financial statements we are required to estimate our taxes in each of the jurisdictions in which we operate. We estimate actual current tax exposure together with assessing temporary differences resulting from differing treatment of items, such as accruals and allowances not currently deductible for tax purposes. These differences result in deferred tax assets and liabilities, which are included in our consolidated balance sheets. We must assess the likelihood that our deferred tax assets will be recovered from future taxable income and to the extent we believe that recovery is not likely, we must establish a valuation allowance.

Management must exercise significant judgment to determine our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. We base the valuation allowance on our estimates of taxable income in each jurisdiction in which we operate and the period over which our deferred tax assets are more likely than not to be recoverable. As of December 31, 2017, we had a net operating loss carryforward of approximately \$161.9 million and had recorded a valuation allowance against most of our net deferred tax assets, based on the available evidence, we believed at that time it was more likely than not that we would not be able to utilize all of these deferred tax assets in the future.

U.S. GAAP requires that the impact of an uncertain income tax position on the income tax return is recognized at the largest amount that is more likely than not to be sustained upon audit by the relevant tax authority. If we ultimately determine that the payment of these liabilities will be unnecessary, we reverse the liability and recognize a tax benefit during that period. Conversely, we should then record additional tax charges in a period in which we determine that a recorded tax liability is less than we expect the ultimate assessment to be. We did not recognize any significant unrecognized tax benefits during the periods presented in this annual report.

## Recent Accounting Standards Issued

See Note 2(aa) to our consolidated financial statements included elsewhere in this annual report for information regarding recent accounting standards issued that are of significance, or potential significance to us.

## B. Liquidity and Capital Resources

We have financed our operations primarily through the proceeds from the issuance of our securities and cash flows from operations. In November 2013, we closed our IPO, resulting in net proceeds to us of approximately \$93.6 million.

As of December 31, 2017, we had \$85.2 million of cash and cash equivalents and \$115.4 million in short-term deposits with a maturity date of less than one year. In addition, we had \$0.9 million as restricted deposits that consisted of restricted bank deposits for our leases, credit card agreements and also deposits to secure our online merchant activity with one of our billing processors and we had \$32.7 million as investment in marketable securities.

A substantial source of our cash provided by operating activities is our cash collections from our premium subscriptions, a portion of which is reflected in our deferred revenues, which is included on our consolidated balance sheet as a liability. Deferred revenues consist of the unrecognized portion of upfront payments from our premium subscriptions as well as domain name registration sales. We assess our liquidity, in part, through an analysis of the anticipated recognition of deferred revenues into revenues together with our other sources of liquidity. As of December 31, 2017, we had a working capital of (\$37.4) million, which included \$202.5 million of short-term deferred revenues recorded as a current liability, and we also had \$14.3 million of long-term deferred revenues. These deferred revenues remain unrecognized generally for one to 36 months for premium subscriptions and one to 36 months for domain name registration sales, and will be recognized as revenues ratably over the term of the service period when all of the revenue recognition criteria are met in accordance with our revenue recognition policy.



We believe our existing cash and cash from operations will be sufficient to fund our operations for at least the next twelve months. In addition, we believe that these resources will serve to accelerate our growth plans and future operations.

We expect to spend approximately \$12 - \$13 million in 2018 for capital expenditures, primarily related to leasehold improvements as we expand our office space. Our future capital requirements will depend on many factors, including our rate of revenue growth, the expansion of our selling and marketing activities, the timing and extent of our spending on research and development efforts, and international expansion. We may also seek to invest in or acquire complementary businesses or technologies. To the extent that existing cash, cash from operations and net proceeds from the IPO are insufficient to fund our future activities, we may need to raise additional funding through debt and equity financing. Additional funds may not be available on favorable terms or at all.

#### Cash Flows

The following table presents the major components of net cash flows for the periods presented:

	Year Ended December 31,		
	2015	2016	2017
	(in USD thousands)		
Net cash provided by operating activities	20,876	40,573	83,052
Net cash used in investing activities	(28,668)	(8,393)	(114,874)
Net cash provided by financing activities	6,818	21,658	23,988

#### Cash Provided by (Used in) Operating Activities

Net cash provided by operating activities increased by \$42.5 million in 2017 compared to 2016. Our primary source of cash from operating activities has been cash collections from our premium subscriptions. Our primary uses of cash from operating activities have been selling and marketing expenses, personnel and related overhead costs and other costs related to the provision of our services. We expect cash inflows from operating activities to be affected by increases in sales and the timing of collections. We expect cash outflows from operating activities to be affected by increases in marketing and increases in personnel costs as we grow our business.

For the year ended December 31, 2017, operating activities provided \$83.1 million in cash, primarily resulting from increases of \$58.4 million in short and long term deferred revenue balance due to increase in collections from our premium subscriptions and \$56.1 million as an adjustment of non-cash charges related primarily to share-based compensation expenses, depreciation and amortization. These were offset primarily by our net loss of \$56.3 million, an \$18.7 million increase in accrued expenses and other current liabilities and \$11.8 million related to increase in trade payables.

For the year ended December 31, 2016, operating activities provided \$40.6 million in cash, primarily resulting from increases of \$52.0 million in short and long term deferred revenue balance due to increase in collections from our premium subscriptions and \$34.1 million as an adjustment of non-cash charges related primarily to share-based compensation expenses, depreciation, amortization and tax benefits related to the exercise of share options. These were offset primarily by our net loss of \$46.9 million, a \$6.3 million increase in prepaid expenses and other current and long-term assets and \$1.8 million related to increase in trade receivables. These changes were offset by a \$8.3 million increase in trade payables as a result of growth in our business and an increase of \$3.0 million in employees and payroll accruals.

For the year ended December 31, 2015, operating activities provided \$20.9 million in cash, primarily resulting from increases in short and long term deferred revenue balance due to increase in collection from our premium subscriptions and \$25 million as an adjustment of non-cash charges related primarily to share-based compensation expenses, depreciation, amortization and tax benefits related to the exercise of share options. These were offset primarily by our net loss of \$51.3 million, a \$5.4 million increase in trade receivable and \$2.6 million related to increase in prepaid expenses and other current and long-term assets. These changes were offset by a \$7.5 million increase in trade payable as a result of growth in our business and an increase of \$8.9 million in accrued expenses and other current liabilities.

#### Cash Used in Investing Activities

Cash used in investing activities was \$114.9 million, \$8.4 million and \$28.7 million in 2017, 2016 and 2015, respectively. Investing activities have consisted primarily of investment in deposits, investment and proceeds of restricted deposits, purchase of property and equipment and payments for the acquisition of the share capital of DeviantArt and other intangible assets. In addition, the company invested during the year in marketable securities according to the investment policy, which was approved by the Audit committee.

#### Cash Provided by Financing Activities

Cash provided by financing activities was \$24.0 million, \$21.7 million and \$6.8 million in 2017, 2016 and 2015, respectively. Financing activities have consisted primarily of proceeds from the exercise of share options.

#### C. Research and Development, Patents and Licenses, etc.

Our research and development activities are primarily located in Israel, with additional employees engaged in research and development activities in Lithuania and Germany and contractors, either directly or through a third-party service organization, engaged in research and development activities for us in Ukraine. Our research and development department is comprised of 1,061 employees and contractors. In 2017, research and development costs accounted for approximately 36.1% of our total revenues.

We employ a strategy of seeking patent protection for some of our technologies. We have filed a number of patent applications and continue to file for patents in the United States as well as in several additional jurisdictions worldwide in order to protect our invention as well as PCT applications that may result in additional national applications. As of December 31, 2017 we have (together with our subsidiaries DeviantArt and Flok) a total of 15 issued patents (13 in the United States and 2 in Israel), and 30 pending U.S. patent applications (some of which were also filed under PCT or in additional regions, adding a total of 130 non-U.S. patent applications). We also have one U.S. design patent application. No patent or patent application is material to the overall conduct of our business. For a description of our research and development policies, see “Item 4.A. Business Overview—Research and development.”

#### D. Trend Information

Other than as disclosed elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events for the period from January 1, 2017 to December 31, 2017 that are reasonably likely to have a material adverse effect on our net revenue, income, profitability, liquidity or capital resources, or that caused the disclosed financial information to be not necessarily indicative of future operating results or financial condition.

## E. Off-Balance Sheet Arrangements

We do not currently engage in off-balance sheet financing arrangements. In addition, we do not have any interest in entities referred to as variable interest entities, which includes special purposes entities and other structured finance entities.

## F. Contractual Obligations

Our significant operating lease contractual obligations as of December 31, 2017 are summarized in the following table:

	Payments Due by Period <sup>(1)</sup>					Thereafter
	Total	2018	2019	2020	2021	
	(in USD thousands)					
Operating lease obligations <sup>(2)</sup>	29,232	8,960	7,452	6,230	2,076	4,514
Uncertain tax obligations <sup>(3)</sup>	1,378	-	-	-	-	-
Total	30,610	8,960	7,452	6,230	2,076	4,514

(1) Does not include short-term obligations that accrue monthly and are payable to third-party distributors and Internet search providers.

(2) Consists of future lease payments for our rented office facilities located in Tel Aviv and Beer-Sheva, Israel; New York, New York; San Francisco, California; Los Angeles, California; Miami, Florida; Vilnius, Lithuania; Berlin, Germany; and Santana de Parnaiba, Brazil. It also includes future lease payments for leased motor vehicles.

(3) Consists of accruals for certain income tax positions under ASC 740 that are paid upon settlement, and for which we are unable to reasonably estimate the ultimate amount and timing of settlement. See Note 11(i) to our consolidated financial statements included elsewhere in this annual report for further information regarding our liability under ASC 740. Payment of these obligations would result from settlements with tax authorities. Due to the difficulty in determining the timing of resolution of audits, these obligations are only presented in their total amount.



## Item 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

## A. Directors and Senior Management

The following table sets forth the name, age and position of each of our executive officers and directors as of February 28, 2018:

Name	Age	Position
Executive Officers		
Avishai Abrahami	46	Co-founder, Chief Executive Officer, Director and Honorary Chairman
Giora Kaplan	47	Co-founder, Chief Technology Officer and Director
Lior Shemesh	48	Chief Financial Officer
Nir Zohar	40	President and Chief Operating Officer
Omer Shai	40	Chief Marketing Officer
Yaniv Even-Haim	43	Vice President of Research and Development
Directors		
Mark Tluszczy <sup>(4)</sup>	51	Chairman of the Board
Deirdre Bigley <sup>(4)</sup>	53	Director
Allon Bloch <sup>(4)</sup>	47	Director
Yuval Cohen <sup>(1)(2)(4)</sup>	55	Director
Ron Gutler <sup>(1)(2)(3)(4)(5)</sup>	60	Director
Erika Rottenberg <sup>(1)(2)(3)(4)</sup>	55	Director
Roy Saar <sup>(4)</sup>	47	Director

(1) Member of our audit committee

(2) Member of our compensation committee

(3) Member of our nominating and governance committee

(4) Independent director under the rules of NASDAQ

(5) Lead independent director

## Executive Officers

Avishai Abrahami is our Co-Founder, and has served as our Chief Executive Officer since September 2010, was our Co-Chief Executive Officer and a director since October 2006, and has served as the Chairman of our Board from November 2013 until February 2016, at which time he was appointed Honorary Chairman. Mr. Abrahami currently serves as a member of the board of directors of SodaStream International Ltd. From 2004 to 2006, Mr. Abrahami was the Vice President of Strategic Alliances at Arel Communications & Software Ltd., a private Israeli company specializing in communication technology. In 1998 he co-founded Sphera Corporation, a private company which develops software for managing data centers, and he served as its Chief Technology Officer from 1998 until 2000 and its Vice President of Product Marketing from 2000 until 2003. In 1993, he co-founded AIT Ltd., a private Israeli software company, and served as its Chief Technology Officer until the company's sale in 1997. Mr. Abrahami served in the Israeli Defense Forces' elite computer intelligence unit from 1990 until 1992.

Giora Kaplan is our Co-Founder, and has served as our Chief Technology Officer since March 2008, was our Co-Chief Executive Officer from 2006 to March 2008, and has served as one of our directors since 2006. From 2004 to 2006, he served as a technology and product management consultant to several start-up companies. Mr. Kaplan was the founder and Chief Executive Officer of Promotix Technologies Ltd., an Internet advertising and publishing company, from 1999 to 2001. He also co-founded and served as Chief Technology Officer of Optimedia Ltd., an electronic and online publishing company, from 1992 to 1999. Mr. Kaplan served in the Israeli Defense Forces' elite computer intelligence unit from 1988 until 1991.



Lior Shemesh has served as our Chief Financial Officer since March 2013. From December 2010 to January 2013, he served as Chief Financial Officer at Alvarion Ltd., a provider of optimized wireless broadband solutions. From October 2008 to December 2010 he served as Alvarion's Vice President of Finance. From May 2003 to October 2008, Mr. Shemesh served as Vice President of Finance at Veraz Networks Inc., a provider of softswitch, media gateway and digital compression solutions. Prior to this, Mr. Shemesh served as Controller, and later as Associate Vice President of Finance of the Broadband division, for ECI Telecom Ltd., a network infrastructure provider. Mr. Shemesh holds a B.A. in Accounting and Economics, and an M.B.A. from Bar-Ilan University.

Nir Zohar has served as our President since September 2013 and Chief Operating Officer since June 2008 and joined our company in May 2007. Prior to joining us, from August 2005 to April 2007, Mr. Zohar was the Budget and Production Manager of M.B. Contact Ltd., a private Israeli event production company. From 2001 until 2005, Mr. Zohar worked for The Jewish Agency and the Israeli Scouts. From 1995 until 2001, Mr. Zohar served as a Lieutenant Commander and Chief Engineer in the Israeli Navy.

Omer Shai has served as our Chief Marketing Officer since September 2013 and previously as our Vice President of Marketing since May 2010. Mr. Shai is the co-founder of Hyperactive, a digital design company, which he led from June 2005 to February 2008. Prior to that, he worked as an online marketing consultant for several brands. From October 2000 to May 2003, Mr. Shai was the Marketing Director at Hackersoftware, a software company. Prior to that, he worked as an online marketing consultant for several brands. Mr. Shai holds a B.Sc. in Economics from The Academic College of Tel Aviv, Yaffo.

Yaniv Even-Haim has served as our Vice President of Research and Development since September 2010. From August 2009 to September 2010, Mr. Even-Haim was the Vice President of Product at Pudding Media Inc., a mobile advertising solutions company. From September 2001 to August 2009, he was the Head of Research and Development at Comverse, Inc., a provider of communications software. From August 1998 to September 2001, Mr. Even-Haim was the Director of Research and Development at EverAd, Inc., a music and advertising company. Mr. Even-Haim holds a B.Sc. in Computers and an M.B.A. from Technion—Israel's Institute of Technology.

## Directors

Mark Tluszcz has served as the Chairman of our board of directors since February 2016 and as a member of our board of directors since June 2010. Mr. Tluszcz is the Co-Founder and CEO of Mangrove Capital Partners, a leading venture capital firm, since 2000. Mark was named to the Forbes Midas List in 2007, 2008 and 2009 as one of the top 100 global deal makers in technology and selected in 2012 and 2014 as one of the 100 most influential persons in Luxembourg. Mr. Tluszcz currently serves on the board of directors of STS Media, Inc. (trading as FreedomPop), JobToday S.A. and Kang Health, Inc. Mr. Tluszcz holds a Bachelor of Arts degree with honors from Eckerd College, St. Petersburg, Florida.

Deirdre Bigley has served as a member of our board of directors since November 2017. Ms. Bigley currently serves as Chief Marketing Officer of Bloomberg, L.P., a global business and financial information and news leader, which she joined in 2009. Prior to joining Bloomberg, Ms. Bigley spent thirteen years at IBM, where she held several executive positions, including Vice President of Worldwide Advertising and Interactive, and Vice President of Worldwide Brand. Ms. Bigley currently serves as a member of the board of directors of Shutterstock, Inc., a global provider of commercial imagery and music. She also serves as a member of the board of directors of the Ad Council and as a member of the board of directors of MAKERS. Ms. Bigley holds a Bachelor of Arts degree in English Literature from West Chester University.

Allon Bloch has served as a member of our board of directors since July 2016. Mr. Bloch also served as a member of our board of directors from January 2008 through August 2013, and as our President and Co-Chief Executive Officer from 2008 through September 2010. Mr. Bloch is Co-Founder and CEO of Kang Health Inc., a digital health company that is D/B/A as K Health. From July 2014 through June 2016, Mr. Bloch served as Chief Executive Officer of

Vroom, Inc., a leading online US car retailer, and from October 2010 through June 2014 as Chief Executive Officer of Dolphin Software Ltd, which does business as “mySupermarket”, a private online grocery shopping company. Since July 2012, Mr. Bloch has also served as an advisor to Greylock Partners Israel and Europe Fund, a venture capital firm focused on technology start-ups. From 2000 to 2007, Mr. Bloch served as a Principal and General Partner at Jerusalem Venture Partners, a leading early stage venture capital firm based in Israel. In this capacity, Mr. Bloch invested in several successful outcomes including Cyberark. Prior to that, between 1997 through 2000, he was a consultant in McKinsey & Company’s. Mr. Bloch holds a B.Sc. in Biology from Tel Aviv University and an M.B.A. from Columbia University.

Yuval Cohen has served as a member of our board of directors since August 2013, as a member of our audit committee since May 8, 2017 and as a member of our compensation committee as of November 7, 2017. Mr. Cohen is the founding and managing partner of Fortissimo Capital, a private equity fund established in January 2003, managing approximately \$1 billion that invests in Israeli-related technology and industrial companies. From 1997 through 2002, Mr. Cohen was a General Partner at Jerusalem Venture Partners, an Israeli-based venture capital fund. Mr. Cohen currently serves as the Chairman of the Board of Directors of Kornit Digital Ltd. as well as a director of several privately held portfolio companies of Fortissimo Capital. Mr. Cohen holds a B.Sc. in Industrial Engineering from Tel Aviv University and an M.B.A. from Harvard Business School.

Ron Gutler has served as a member of our board of directors since July 2013, as our lead independent director since February 2016 and serves as Chairman of each of our committees. From May 2002 through February 2013, Mr. Gutler served as the Chairman of NICE Systems Ltd., a public company specializing in voice recording, data security, and surveillance. Between 2000 and 2011, Mr. Gutler served as the Chairman of G.J.E. 121 Promoting Investment Ltd., a real estate company. Between 2000 and 2002, Mr. Gutler managed the Blue Border Horizon Fund, a global macro fund. Mr. Gutler is a former Managing Director and a Partner of Bankers Trust Company, which is currently part of Deutsche Bank. He also established and headed the Israeli office of Bankers Trust. Mr. Gutler is currently a director of CyberArk Software Ltd., an Israeli information security company, Psagot Investment House, Psagot Securities, Poalim Securities USA Inc., and CyberArk Software Ltd., an Israeli information security company traded on NASDAQ, and a member of the Advisory Board of Poalim Real Estate, which is part of Poalim Capital Market Group. Mr. Gutler holds a B.A. in Economics and International Relations and an M.B.A., both from the Hebrew University in Jerusalem.

Erika Rottenberg has served as a member of our board of directors since October 2014 and also, since 2015, serves on each of the Compensation, Audit and Nominating & Governance Committees. Since June 2016, Ms. Rottenberg also serves on the Board of Directors and on the Audit and Compensation Committees of Twilio, a leading cloud communications platform company. From July 2008 until September 2014, Ms. Rottenberg was Vice President, General Counsel and Secretary of LinkedIn Corporation, the world's largest professional networking company on the internet. Prior to LinkedIn, Ms. Rottenberg served as Senior Vice President, General Counsel and Secretary for SumTotal Systems, Inc., a talent management enterprise software company, from March 2004 to July 2008. Prior to SumTotal, Ms. Rottenberg served in several roles, including most recently as Vice President, Strategic Development and General Counsel, at Creative Labs, Inc., a computer peripheral and digital entertainment product company. Ms. Rottenberg began her legal career at the Silicon Valley-based law firm of Cooley LLP where she practiced corporate and employment law. Ms. Rottenberg serves on advisory boards of private companies, and the boards of directors of the Girl Scouts of Northern California, the Center for Democracy and Technology (CDT) and the Silicon Valley Law Foundation. She holds a J.D. from the University of California, Berkeley's Boalt Hall School of Law and a B.S. in Special and Elementary Education from State University of New York at Geneseo.

Roy Saar has served as a member of our board of directors since January 2007. Mr. Saar is a partner in Mangrove IV Investment Fund and in Mangrove V Investment Fund, a European venture capital firm. In 1998, he co-founded Sphera Corporation, a virtual servers' technology vendor for SaaS providers. In 2002, Mr. Saar co-founded RCell Technologies Ltd., a wireless product and service provider in Israel. Mr. Saar is currently a member of the board of directors of several private companies. Mr. Saar holds a B.A. in Business Administration and Economy from Tel Aviv University.

## B. Compensation

### Compensation of Directors and Executive Officers

The aggregate compensation paid by us to our directors and executive officers as a group (excluding compensation paid to Norbert Becker, who retired from our Board of Directors on April 2017), including share-based compensation, was approximately \$16.0 million for the year ended December 31, 2017. This amount does not include amounts accrued for expenses related to business travel, professional and business association dues and other business expenses reimbursed to officers. This amount includes approximately \$0.5 million set aside or accrued to provide pension, severance, retirement or similar benefits or expenses.

The share-based compensation for the year ended December 31, 2017 recorded in our financial statement due to options and RSUs granted to our directors and executive officers as a group related to (i) options to purchase 4,217,915 shares with exercise prices ranging from \$0.00 to \$76.85 and (ii) 295,688 RSUs. The expiration date of such options is ten years after their date of grant.

Following is a summary of the salary expenses and social benefit costs of our five most highly compensated executive officers in 2017, or the Covered Executives (in thousands of U.S dollars). All amounts reported reflect the cost to the company as recognized in our financial statements for the year ended December 31, 2017.

Mr. Avishai Abrahami, Chief Executive Officer and Director. Compensation expenses recorded in 2017 of \$358 in salary expenses and \$82 in social benefit costs.

Mr. Giora Kaplan, Chief Technology Officer and Director. Compensation expenses recorded in 2017 of \$358 in salary expenses and \$109 in social benefit costs.

Mr. Nir Zohar, President and Chief Operating Officer. Compensation expenses recorded in 2017 of \$334 in salary expenses and \$68 in social benefit costs.

Mr. Lior Shemesh, Chief Financial Officer. Compensation expenses recorded in 2017 of \$327 in salary expenses and \$65 in social benefit costs.

Mr. Omer Shai, Chief Marketing Officer. Compensation expenses recorded in 2017 of \$318 in salary expenses and \$66 in social benefit costs.

The salary expenses summarized above include the gross salary paid to the Covered Executives, and the benefit costs include the social benefits paid by us on behalf of the Covered Executives, including convalescence pay, contributions made by the company to an insurance policy or a pension fund, work disability insurance, severance, educational fund and payments for social security.

In accordance with the company's executive compensation policy, we also paid cash bonuses to our Covered Executives upon compliance with predetermined 2017 performance parameters set by the Compensation Committee and the Board of Directors. The 2017 cash bonus expenses for Avishai Abrahami, Giora Kaplan, Nir Zohar, Lior Shemesh and Omer Shai, as provided for in our 2017 financial statements (but paid during 2018), were \$100,000

each. The cash compensation amounts were denominated in U.S. Dollars and were paid in Israeli Shekels at the exchange rate applicable on the date of payment.

From time to time, we grant options, RSUs and other awards under our equity incentive plans (described below) to our executive officers and directors. See Item 6.C. “– Board Practices” for a detailed description of the approval procedures we follow in compensating our directors and executive officers.

During 2017, we granted our directors and executive officers options to purchase an aggregate of 627,896 shares and 104,300 RSUs under our equity incentive plans, with exercise price of these options ranging from \$42.60 to \$76.85, and their expiration date is 10 years from the date of grant or 90 days after the termination of the engagement with the company, whichever is earlier. Director equity grants are subject to a vesting schedule over a three-year period for newly appointed directors and one-year periods for serving directors. Executive equity grants are subject to a vesting schedule over a four-year period, with the equity grants to our Chief Executive Officer and Chief Technology Officer being subject to predetermined Company performance criteria set by the company’s Compensation Committee and Board of Directors. We recorded equity-based compensation expenses in our financial statements for the year ended December 31, 2017 for the above 2017 options and RSU grants granted to Avishai Abrahami, Giora Kaplan, Nir Zohar, Lior Shemesh and Omer Shai on February 14, 2017, of \$1,305,000, \$408,000, \$790,000, \$611,000 and \$611,000, respectively. The relevant amounts underlying the equity awards granted to some our directors and officers during 2017, will continue to be expensed in our financial statements during the years 2018-2021 on account of the 2017 grants. Assumptions and key variables used in the calculation of such amounts are described in Note 10 to our audited consolidated financial statements included in Item 18 of this Annual Report. All equity-based compensation grants to our Covered Executives were made in accordance with the parameters of our company’s executive compensation policy and were approved by the company’s Compensation Committee and Board of Directors, and, in the case of the equity-based compensation granted to the Chief Executive Officer and Chief Technology Officer, also by the company’s shareholders in accordance with the Companies Law.

#### Compensation Program for Non-Executive Directors

In September 2016, our shareholders adopted a new compensation program for our non-executive directors. Pursuant to the new compensation program, we eliminated board and committee meeting fees and replaced them with an increased annual cash retainer. The program also provides for a fixed, automatic equity grant mechanism for our non-executive directors and the Chairman of the Board, as adopted by our shareholders in June 2017.

Cash retainer. The annual retainer for board membership is \$35,000, with the Chairman of the Board paid a supplemental annual fee of \$40,000 and the lead-independent director paid a supplemental fee of \$17,500. Non-Israeli directors are also entitled to a supplemental annual travel time fee of \$20,000 (\$5,000 for each quarter during which a director attends meetings in Israel).

The annual retainer for committee membership is \$8,000 for audit committee membership and \$5,000 for membership of each of the compensation committee and the nominating and corporate governance committee. The annual retainer for serving as chair of the audit committee, the compensation committee and the nominating and corporate governance committee is \$20,000, \$10,000 and \$7,500, respectively.

Equity awards. Upon initial election to the board of directors, each non-executive director is granted an initial grant of 5,502 RSUs and options to purchase 16,504 ordinary shares. Following the expiration of the initial grant, each non-executive director is granted annual awards, each of which is comprised of 1,906 RSUs and options to purchase 5,718 ordinary shares, whereas the Chairman of the Board is granted an annual award of 2,859 RSUs and options to purchase 8,577 ordinary shares. The options expire 10 years from the date of grant. The fair value of the RSUs and options shall be determined in accordance with the Black-Scholes-Merton option pricing model on the date the applicable equity grants are approved by the board.



The initial grant vests in equal quarterly installments over three years, subject to continued service as a director through the applicable vesting dates. The annual grants vest in equal quarterly installments over a one-year period, commencing upon the expiration of the vesting period of the preceding equity grant, and subject to continued service as a director through the applicable vesting dates. All grants are subject to a “double trigger” full acceleration vesting mechanism upon a “Change of Control” event.

In the case of non-executive directors who are Israeli residents, the exercise price of the options shall equal the average closing share prices of the ordinary shares on NASDAQ on the 30 trading days prior to the date of the first board meeting held immediately after the expiration of the preceding vesting period. In the case of non-executive directors who are not Israeli residents, the exercise price of the options shall equal the closing share price of the ordinary shares on NASDAQ on the trading day of the first board meeting held immediately after the expiration of the preceding vesting period.

We will also reimburse all reasonable out-of-pocket expenses incurred by directors for their attendance at meetings of the board or any committee in accordance with our policy.

Employee directors will receive no additional compensation for their service as a director; provided, however, that an executive director who ceases to be a company executive and is designated by the board as a non-executive director, shall be entitled to the same compensation as a non-executive director (other than the initial equity grant), commencing on the date such director is designated by the board as a non-executive director.

As of February 28, 2018, 11,111,587 ordinary shares are subject to outstanding option and RSU awards granted to employees and office holders under our share incentive plans, including 5,179,326 ordinary shares issuable under currently exercisable share options. As of February 28, 2018, 2,785,573 shares remained available for future grant under our share incentive plans.

#### Employment and Consulting Agreements with Executive Officers

We have entered into written employment or consulting agreements with all of our executive officers. Each of these agreements contains provisions regarding non-competition, confidentiality of information and assignment of inventions. The non-competition provision applies for a period that is generally 12 months following termination of employment. The enforceability of covenants not to compete in Israel and the United States is subject to limitations. The engagements with our executive officers are not limited in time and can be terminated subject to applicable laws. In the event of such termination, we are required to provide one to three months’ notice prior to termination, other than in the case of a termination for cause.

#### Directors’ Service Contracts

Other than with respect to our directors that are also executive officers, there are no arrangements or understandings between us, on the one hand, and any of our directors, on the other hand, providing for benefits upon termination of their service as directors of our company.

#### 2007 Share Option Plan

Our 2007 Share Option Plan was adopted by our board of directors on April 1, 2007, approved by our shareholders on March 18, 2008, amended on June 20, 2010 and on October 27, 2011, or the 2007 plan. The 2007 plan generally permitted the grant of share options to our affiliates, employees, directors or consultants. As of December 31, 2017, options to purchase 3,985,432 ordinary shares were outstanding under the 2007 plan. The 2007 plan was terminated on October 15, 2013, although option awards outstanding as of that date will continue in full force in accordance with the terms under which they were granted.



Our compensation committee administers the 2007 plan and our board of directors may amend the plan at any time, except that generally no amendment may impair the rights of an optionholder without his or her written consent, unless such amendment (i) is required to satisfy an existing law, regulation or accounting standard or (ii) is not reasonably likely to significantly diminish the benefits provided under the plan or that such diminishment has been adequately compensated. In all other cases, the approval of our shareholders is generally required for any amendment that would (i) decrease the minimum option exercise price requirements under the 2007 plan, or (ii) extend the duration of the 2007 plan or the period during which incentive share options may be exercised.

Options granted under the 2007 plan generally vest and become exercisable over a period of four years with 25% of the shares subject to the option vesting on the first anniversary of the grant and the rest vesting monthly over the next three years, subject to continued employment or service by the optionholder. Options generally expire ten years from the grant date.

Upon termination of employment or service for any reason, other than for cause or death or disability, the optionholder may exercise his or her vested options within 90 days of the date of termination. If we terminate an optionholder's employment or service for cause, all of the employee's options, whether vested or unvested, expire on the termination date. Upon termination of employment or service due to death or disability, the optionholder or his or her estate may exercise his or her vested options within twelve months from the date of death or disability. An option may not, however, be exercised after the option's expiration date. Subject to applicable law, if the optionholder's employment or services is terminated for fraud, breach of loyalty, theft or other malicious behavior against us, then he or she will be deemed to have offered to our other shareholders the right to purchase all of the shares issued pursuant to his or her option at the exercise price paid by him or her for such shares pro rata to their respective holdings of our issued and outstanding shares.

Options are non-transferable except in the event of an optionholder's death.

If we are party to a merger or consolidation, outstanding options and shares acquired under the 2007 plan will be subject to the agreement of merger or consolidation, which will provide for one or more of the following: (i) the continuation of such options by us, (ii) the assumption of such options by the surviving corporation or its parent, (iii) the substitution by the surviving corporation or its parent of new options, (iv) the cancellation of such options in exchange for payment equaling the market value of the shares subject to the option less the exercise price, or (v) full exercisability of the option and full vesting of the shares subject to the option.

### 2013 Incentive Compensation Plan

We adopted our 2013 Incentive Compensation Plan, or the 2013 plan, which went into effect on October 15, 2013. The 2013 plan provides for the grant of options, restricted shares, RSUs, share appreciation rights, cash-based awards, dividend equivalents and other share-based awards to our company's and our subsidiaries' respective directors, employees, officers, consultants, advisors and to any other person whose services are considered valuable to us or any of our affiliates. As of December 31, 2017, options to purchase 4,227,122 of our ordinary shares and 2,081,646 RSUs were outstanding under the 2013 plan.

In 2017, under the 2013 plan, we granted to certain of our directors, executive officers and employees, options to purchase 1,290,423 of our ordinary shares at a weighted average exercise price of \$54.02 per share and 1,375,774 RSUs.

As of December 31, 2017, the number of shares that we may issue under the 2013 plan is 1,728,993 ordinary shares, which automatically increases annually on January 1, by a number of ordinary shares equal to the lowest of (i) 5% of our outstanding shares on December 31 of the immediately preceding calendar year, (ii) a number of shares determined by our board of directors, if so determined prior to January 1 of the year on which the increase will occur, and (iii) 7,500,000 shares. Ordinary shares subject to outstanding awards under the 2007 plan or the 2013 plan that are subsequently forfeited or terminated for any other reason before being exercised will again be available for grant or regrant, respectively, under the 2013 plan. The number of shares subject to the 2013 plan is also subject to adjustment if particular capital changes affect our share capital. On January 1, 2018, the number of ordinary shares reserved for the 2013 plan increased by 2,322,679. The total number of ordinary shares reserved under the 2013 plan as of February 28, 2018 was 2,785,573.

The 2013 plan is administered by our board of directors or by a committee designated by the board of directors. Subject to those rights which are reserved to the board of directors or which require shareholder approval under Israeli law, our board of directors has designated the compensation committee to administer the 2013 plan, including determining the grantees of awards and the terms of the grant, exercise prices, vesting schedules, acceleration of vesting and the other matters necessary for the administration of the 2013 plan.

A share option is the right to purchase a specified number of ordinary shares in the future at a specified exercise price and subject to the other terms and conditions specified in the option award agreement and the 2013 plan. Subject to those rights which are reserved to the board of directors or which require shareholder approval, the exercise price of each option granted under the 2013 plan is determined by our compensation committee. The exercise price of any share options granted under the 2013 plan may be paid in cash, ordinary shares already owned by the option holder or any other method that may be approved by our compensation committee, such as a cashless broker-assisted exercise that complies with law.

Options granted under the 2013 plan will generally vest over four years commencing on the date of grant such that 25% vest on the first anniversary of the date of grant and an additional 6.25% vest at the end of each subsequent three-month period thereafter for 36 months. Options, other than certain incentive share options, that are not exercised within ten years from the grant date expire, unless otherwise determined by our board of directors or the compensation committee, as applicable. In the event of termination of employment or services for reasons of disability or death, the grantee, or in the case of death, his or her legal successor, may exercise options that have vested prior to termination within a period of one year from the date of disability or death. If we terminate a grantee's employment or service for cause, all of the grantee's vested and unvested options will expire on the date of termination. If a grantee's employment or service is terminated for any other reason, including retirement, the grantee may exercise his or her vested options within 90 days of the date of termination. Any expired or unvested options return to the pool for reissuance.

Restricted share awards are ordinary shares that are awarded to a participant subject to the satisfaction of the terms and conditions established by the compensation committee. Until such time as the applicable restrictions lapse, restricted shares are subject to forfeiture and may not be sold, assigned, pledged or otherwise disposed of by the participant who holds those shares. RSUs are denominated in units ordinary shares, except that no shares are actually issued to the participant on the grant date. When a RSU award vests, the participant is entitled to receive ordinary shares, a cash payment based on the value of ordinary shares or a combination of shares and cash.

Share options granted to Israeli employees under the 2013 plan may be granted pursuant to the provisions of Section 102 of the Israeli Income Tax Ordinance. Any options granted pursuant to such provision will be issued to a trustee and be held by the trustee for at least two years from the date of grant of the options. Any share options granted under the 2013 plan to participants in the United States will be either "incentive stock options," which may be eligible for special tax treatment under the Internal Revenue Code of 1986, or options other than incentive stock options, or nonqualified stock options, as determined by our compensation committee and stated in the option agreement.



If we undergo a change of control, as defined in the 2013 plan, subject to any contrary law or rule, or the terms of any award agreement in effect before the change of control, then without the consent of the option holder, our board of directors or its designated committee, as applicable, may but is not required to (i) cause any outstanding award to be assumed or an equivalent award to be substituted by such successor corporation or (ii) if the successor corporation refuses to assume or substitute the award as described in the 2013 plan (a) the grantee's awards shall accelerate in full and such grantee may exercise the award as to all or part of the shares or (b) cancel the options against payment in cash, securities or other property in the same amount as was received by the holders of our shares in such change of control transaction.

Subject to particular limitations specified in the 2013 plan and under applicable law, our board of directors may amend or terminate the 2013 plan, and the compensation committee may amend awards outstanding under the 2013 plan. The 2013 plan will continue in effect until all ordinary shares available under the 2013 plan are delivered and all restrictions on those shares have lapsed, unless the 2013 plan is terminated earlier by our board of directors. No awards may be granted under the 2013 plan on or after the tenth anniversary of the date of adoption of the plan.

The following is information regarding the outstanding options to purchase our ordinary shares held by each of our directors and executive officers who beneficially own greater than one percent of our ordinary shares or options to purchase more than one percent of our ordinary shares as of February 28, 2018:

Our Co-Founder, Chief Executive Officer and Director, Mr. Avishai Abrahami, previously received six grants of options to purchase 816,510, 612,384, 240,000, 240,000, 240,000 and 240,000 ordinary shares, at an exercise price of \$0.33, \$0.003, \$19.82, \$21.03, \$51.45 and \$60.40, respectively, which options will expire if not exercised by December 31, 2020, July 28, 2023, February 10, 2025, February 9, 2026, February 14, 2027 and February 13, 2028, respectively.

Our Co-Founder, Chief Technology Officer and Director, Mr. Giora Kaplan, previously received six grants of options to purchase 680,424, 510,318, 75,000, 75,000, 75,000 and 75,000 ordinary shares, at an exercise price of \$0.33, \$0.003, \$19.82, \$21.03, \$51.45 and \$60.40, respectively, which options will expire if not exercised by December 31, 2020, July 11, 2023, February 10, 2025, February 9, 2026, February 14, 2027 and February 13, 2028, respectively.

Our President and Chief Operation Officer, Mr. Nir Zohar, previously received five grants of options to purchase 494,307, 84,000, 84,000, 84,000 and 84,000 ordinary shares, at an exercise price of \$0.00, \$19.82, \$21.03, \$51.45 and \$60.40, respectively, which options will expire if not exercised by July 11, 2023, February 10, 2025, February 9, 2026, February 14, 2027 and February 13, 2028, respectively. In addition, Mr. Nir Zohar, previously received four grants of RSUs 28,000, 28,000, 28,000 and 28,000.

#### Employee Stock Purchase Plan

We have adopted an employee stock purchase plan, or ESPP, pursuant to which our employees, full time consultants, and employees of our subsidiaries may elect to have payroll deductions (or, when not allowed under local laws or regulations, another form of payment) made on each pay day during the offering period in an amount not exceeding 15% of the compensation which the employees receive on each pay day during the offering period. In the third quarter of 2014, we started granting employees and full time consultants the right to purchase our ordinary shares under the ESPP. The number of ordinary shares initially reserved for purchase under the ESPP was 303,432 ordinary shares, which was automatically increased, and will increase annually, on January 1 by a number of ordinary shares equal to the lowest of (i) 1% of our outstanding shares on December 31 of the immediately preceding calendar year, (ii) a number of shares determined by our board of directors, if so determined prior to January 1 of the year on which the increase will occur, and (iii) 1,500,000 shares. On January 1, 2018, the number of ordinary shares reserved for the ESPP increased by 464,536. The total ordinary shares reserved under the ESPP as of February 28, 2018 was 1,192,274. On March 1, 2018, 120,784 ordinary shares were issued under the ESPP for the 6-month period from September 1, 2017 through February 28, 2018.



The ESPP is administered by our board of directors or by a committee designated by the board of directors. Subject to those rights which are reserved to the board of directors or which require shareholder approval under Israeli law, our board of directors has designated the compensation committee to administer the ESPP. To the extent that we grant employees the right to make purchases under the ESPP, on the first day of each offering period, each participating employee will be granted an option to purchase on the exercise date of such offering period up to a number of the company's ordinary shares determined by dividing (1) the employee's payroll deductions accumulated prior to such exercise date and retained in the employee's account as of the exercise date by (2) the applicable purchase price, subject to certain limitations that may be applied to employees in different jurisdictions to address applicable law. The applicable purchase price is based on a discount percentage of up to 15%, which percentage may be decreased by the board or the compensation committee, multiplied by the lesser of (1) the fair market value of an ordinary share on the exercise date, or (2) the fair market value of an ordinary share on the offering date.

## C. Board Practices

### Board of Directors

Under the Companies Law and our articles of association, our business and affairs are managed under the direction of our board of directors. Our board of directors may exercise all powers and may take all actions that are not specifically granted to our shareholders or to our executive management. Our Chief Executive Officer (referred to as a "general manager" under the Companies Law) is responsible for our day-to-day management. Our Chief Executive Officer is appointed by, and serves at the discretion of, our board of directors, subject to the terms of an employment agreement that we have entered into with him. All other executive officers are appointed by the Chief Executive Officer and are subject to the terms of any applicable employment or consulting agreements that we may enter into with them.

We comply with the rules of NASDAQ requiring that a majority of our directors are independent. Our board of directors has determined that all of our directors, other than Avishai Abrahami and Giora Kaplan, are independent under such rules.

Each of our directors is appointed by a simple majority vote of holders of our voting shares, participating and voting at an annual meeting of our shareholders.

Under our articles of association, our directors are divided into three classes with staggered three-year terms. Each class of directors consists, as nearly as possible, of one-third of the total number of directors constituting the entire board of directors. At each annual general meeting of our shareholders, the election or re-election of directors following the expiration of the term of office of the directors of that class of directors, is for a term of office that expires on the third annual general meeting following such election or re-election, such that each year the term of office of only one class of directors will expire. Our directors are divided among the three classes as follows:

the Class I directors are Allon Bloch, Deirdre Bigley and Erika Rottenberg, and their terms expire at our annual meeting of shareholders to be held in 2020;



the Class II directors are Yuval Cohen, Ron Gutler and Roy Saar, and their terms expire at our annual meeting of shareholders to be held in 2018; and

the Class III directors are Avishai Abrahami, Giora Kaplan and Mark Tluszczyk, and their terms expire at our annual meeting of shareholders to be held in 2019.

The directors shall be elected by a vote of the holders of a majority of the voting power present and voting at that meeting (excluding abstentions). Each director will hold office until such director's successor is elected at a meeting of our shareholders or until the tenure of such director expires earlier pursuant to the Companies Law or unless he or she is removed from office as described below.

Under our articles of association, the approval of the holders of at least  $66\frac{2}{3}\%$  of the shares entitled to vote at a general meeting and voting in person or by proxy at the meeting is generally required to remove any of our directors from office. In addition, vacancies on our board of directors may only be filled by a vote of a simple majority of the directors then in office. A director so appointed will hold office until the annual meeting of our shareholders for the year in which his or her term expires and after his or her successor is duly elected and qualified.

Our Co-founder, Chief Executive Officer and Director, Avishai Abrahami, our Co-founder and Vice President of Client Development, Nadav Abrahami, and our Chief Architect of Research and Development, Yoav Abrahami, are brothers. In addition, our President and Chief Operating Officer, Nir Zohar, is married to the manager of our Design Studio team in our Tel Aviv office, Hagit Zohar. Other than the relationships noted above, there are no family relationships among any of our directors or executive officers.

#### Chairman of the Board and Board Leadership Structure

Our articles of association provide that the chairman of the board is appointed by the members of the board of directors and serves as chairman of the board throughout his term as a director, unless resolved otherwise by the board of directors. Under the Companies Law, the Chief Executive Officer (referred to as a "general manager" under the Companies Law) or a relative of the Chief Executive Officer, may not serve as the chairman of the board of directors, and the chairman or a relative of the chairman may not be vested with authorities of the Chief Executive Officer without shareholder approval consisting of a majority vote of the shares present and voting at a shareholders meeting, provided that either:

such majority includes at least a majority of the shares held by all shareholders who are not controlling shareholders and do not have a personal interest in such appointment, present and voting at such meeting; or

the total number of shares of non-controlling shareholders and shareholders who do not have a personal interest in such appointment voting against such appointment does not exceed two percent of the aggregate voting rights in the company.

In addition, a person subordinated, directly or indirectly, to the Chief Executive Officer may not serve as the chairman of the board of directors; the chairman of the board may not be vested with authorities that are granted to those subordinated to the Chief Executive Officer; and the chairman of the board may not serve in any other position in the company or a controlled company, but he may serve as a director or chairman of a subsidiary.

The board of directors recognizes that one of its key responsibilities is to evaluate and determine its optimal leadership structure so as to provide independent oversight of management. The board of directors believes that, given the dynamic and competitive environment in which we operate, the optimal board leadership structure may vary as circumstances warrant.



At present, the board of directors has chosen to separate the two roles of Chief Executive Officer and Chairman of the Board, as our current leadership structure promotes balance between the authority of those who oversee our business and those who manage it on a day-to-day basis. Mark Pluszcz serves as non-executive chairman of the board of directors and Ron Gutler serves as lead independent director.

Nevertheless, the board of directors recognizes that it is important to retain the organizational flexibility to determine whether the roles of the Chairman of the Board and Chief Executive Officer should be separated or combined in one individual. The board periodically evaluates whether the board leadership structure should be changed in light of specific circumstances applicable to us.

#### External Directors and Recent Israeli Regulations

Under the Companies Law, companies organized under the laws of the State of Israel that are “public companies”, including companies with shares listed on NASDAQ, are generally required to appoint at least two external directors who meet the independence qualification requirements in the Companies Law.

However, pursuant to Israeli regulations adopted on April 2016, an Israeli company traded on NASDAQ that does not have a “controlling shareholder” (as defined in the Companies Law) may elect not to appoint external directors to its board of directors and not to comply with the audit committee and compensation committee composition and chairman requirements of the Companies Law; provided, the company complies with the applicable NASDAQ independent director requirements and the NASDAQ audit committee and compensation committee composition requirements.

In accordance with the relief regulations, our nominating and corporate governance and board of directors elected, in July 2016, not to appoint external directors to the board of directors and not to comply with the audit committee and compensation committee composition and chairman requirements of the Companies Law, and to transition our external directors to become “regular” independent directors.

#### Audit Committee

##### Composition Requirements

Under NASDAQ corporate governance rules, we are required to maintain an audit committee consisting of at least three independent directors, each of whom is financially literate and one of whom has accounting or related financial management expertise.

Our audit committee consists of Ron Gutler, Yuval Cohen and Erika Rottenberg. Ron Gutler serves as the Chairman of the audit committee. All members of our audit committee meet the requirements for financial literacy under the applicable rules and regulations of the SEC and NASDAQ corporate governance rules. Our board of directors has determined that Ron Gutler is an audit committee financial expert as defined by the SEC rules and has the requisite financial experience as defined by NASDAQ corporate governance rules.

Each member of our audit committee is “independent” as such term is defined in the relevant NASDAQ rules and in Rule 10A-3(b)(1) under the Exchange Act, which is different from the general test for independence of board and committee members.

##### Audit Committee Role

Our board of directors has adopted an audit committee charter setting forth the responsibilities of the audit committee consistent with the rules of the SEC and NASDAQ corporate governance rules, which include:

·retaining and terminating our independent auditors, subject to board of directors and shareholder ratification;

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- pre-approval of audit and non-audit services to be provided by the independent auditors;
- reviewing with management and our independent director our annual financial reports prior to their submission to the SEC; and
- approval of certain transactions with office holders and controlling shareholders, as described below, and other related-party transactions.

Additionally, under the Companies Law, an audit committee is required, among other things, to identify deficiencies in the administration of the company (including by consulting with the internal auditor), and recommend remedial actions with respect to such deficiencies, is responsible for reviewing and approving certain related party transactions, including determining whether or not such transactions are extraordinary transactions, and is required to adopt procedures with respect to processing employee complaints in connection with deficiencies in the administration of the company, and the appropriate means of protection afforded to such employees. In addition, the audit committee is responsible to oversee the internal control procedures of the company. Under the Companies Law, the approval of the audit committee is required for specified actions and transactions with office holders and controlling shareholders. See “—Approval of Related Party Transactions under Israeli Law.” However, the audit committee may not approve an action or a transaction with a controlling shareholder or with an office holder unless at the time of approval the majority of the members of the audit committee are present, of whom a majority must be unaffiliated directors.

#### Compensation Committee

##### NASDAQ Listing and Companies Law Requirements

Under NASDAQ corporate governance rules, we are required to maintain a compensation committee consisting of at least two independent directors. Each of the members of the compensation committee is also required to be independent under the additional NASDAQ rules relating specifically to the independence of compensation committee members. Each member of our compensation committee satisfies those requirements.

##### Compensation Committee Role

Our compensation committee consists of Ron Gutler, Yuval Cohen and Erika Rottenberg. Ron Gutler serves as the Chair of the compensation committee.

Our board of directors has adopted a compensation committee charter setting forth the responsibilities of the committee consistent with NASDAQ rules and the Companies Law, which include:

- reviewing and recommending overall compensation policies with respect to our Chief Executive Officer and other executive officers;
- reviewing and approving corporate goals and objectives relevant to the compensation of our Chief Executive Officer and other executive officers including evaluating their performance in light of such goals and objectives;
- reviewing and approving the granting of options and other incentive awards; and
- reviewing, evaluating and making recommendations regarding the compensation and benefits for our non-employee directors.

Additionally, under the Companies Law, the compensation committee's duties include recommending compensation policies to the board of directors, overseeing compensation policy implementation and ratifying the compensation of executive officers.

#### Nominating and Governance Committee

Our nominating and governance committee consists of Ron Gutler and Erika Rottenberg. Ron Gutler serves as the Chairman of the nominating and governance committee. Our board of directors has adopted a nominating and governance committee charter setting forth the responsibilities which include:

- overseeing and assisting our board in reviewing and recommending nominees for election as directors;
- assessing the performance of the members of our board; and
- establishing and maintaining effective corporate governance policies and practices, including, but not limited to, developing and recommending to our board a set of corporate governance guidelines applicable to our company.

#### Compensation Policies under the Companies Law

In accordance with the Companies Law, we have adopted compensation policies for our directors and executive officers, which we refer to in this section as "office holders." In adopting the compensation policies, the compensation committee took into account factors such as the office holder's education, experience, past compensation arrangements with the company, and the proportional difference between the person's compensation and the average compensation of the company's employees.

The compensation policies must be approved at least once every three years at the company's general meeting of shareholders, following approval of the compensation committee and the board, and is subject to the approval of a majority vote of the shares present and voting at a shareholders meeting, provided that either:

- such majority includes at least a majority of the shares held by all shareholders who are not controlling shareholders and do not have a personal interest in such election (other than a personal interest which is not derived from a relationship with a controlling shareholder), present and voting at such meeting; or
- the total number of shares of non-controlling shareholders and shareholders who do not have a personal interest in such election (other than a personal interest which is not derived from a relationship with a controlling shareholder) voting against the approval of the compensation policy does not exceed 2% of the aggregate voting rights in the company.

The compensation policies serve as the basis for decisions concerning the financial terms of employment or engagement of executive officers and directors, including exculpation, insurance, indemnification or any monetary payment or obligation of payment in respect of employment or engagement. The compensation policies must relate to certain factors, including advancement of the company's objectives, the company's business and its long-term strategy, and creation of appropriate incentives for executives. It must also consider, among other things, the company's risk management, size and the nature of its operations. The compensation policies must furthermore consider the following additional factors:

- the knowledge, skills, expertise and accomplishments of the relevant director or executive;
- the director's or executive's roles and responsibilities and prior compensation agreements with him or her;



the relationship between the cost of the compensation terms offered to the relevant director or executive and the average compensation cost of the other employees of the company, including those employed through manpower companies;

the impact of disparities in salary upon work relationships in the company;

the possibility of reducing variable compensation at the discretion of the board of directors; and the possibility of setting a limit on the exercise value of non-cash variable compensation; and

as to severance compensation, the period of service of the director or executive, the terms of his or her compensation during such service period, the company's performance during that period of service, the person's contribution towards the company's achievement of its goals and the maximization of its profits, and the circumstances under which the person is leaving the company.

The compensation policies must also include the following principles:

the link between variable compensation and long-term performance and measurable criteria;

the relationship between variable and fixed compensation, and the ceiling for the value of variable compensation;

the conditions under which a director or executive would be required to repay compensation paid to him or her if it was later shown that the data upon which such compensation was based was inaccurate and was required to be restated in the company's financial statements;

the minimum holding or vesting period for variable, equity-based compensation while referring to appropriate a long-term perspective based incentives; and

maximum limits for severance compensation.

The compensation committee is responsible for (a) recommending the compensation policies to the company's board of directors for its approval (and subsequent approval by our shareholders) and (b) duties related to the compensation policies and to the approval of the terms of engagement of office holders, including:

recommending whether a compensation policy should continue in effect, if the then-current policy has a term of greater than three (3) years (approval of either a new compensation policy or the continuation of an existing compensation policy must in any case occur every three years);

recommending to the board of directors periodic updates to the compensation policies;

assessing implementation of the compensation policies; and

determining whether the compensation terms of a proposed new Chief Executive Officer of the company need not be brought to approval of the shareholders.

#### Compensation of Directors

Under the Companies Law, the compensation of our directors requires the approval of our compensation committee, the subsequent approval of the board of directors and, unless exempted under the regulations promulgated under the Companies Law, the approval of the shareholders at a general meeting. Where the director is also a controlling shareholder, the requirements for approval of transactions with controlling shareholders apply, as described below



under “—Disclosure of Personal Interests of a Controlling Shareholder and Approval of Certain Transactions.”

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The directors are also entitled to be paid reasonable travel, hotel and other expenses expended by them in attending board meetings and performing their functions as directors of the company, all of which is to be determined by the board of directors.

For additional information, see “—Compensation of Officers and Directors – Compensation Program for Non-Executive Directors.”

#### Internal Auditor

Under the Companies Law, the board of directors of an Israeli public company must appoint an internal auditor recommended by the audit committee and appointed by the board of directors. An internal auditor may not be:

- a person (or a relative of a person) who holds more than 5% of the company’s outstanding shares or voting rights;
- a person (or a relative of a person) who has the power to appoint a director or the general manager of the company;
- an office holder or director of the company or a relative of such person; or
- a member of the company’s independent accounting firm, or anyone on its behalf.

The role of the internal auditor is to examine, among other things, our compliance with applicable law and orderly business procedures. The audit committee is required to oversee the activities and to assess the performance of the internal auditor as well as to review the internal auditor’s work plan. Deloitte Brightman Almagor serves as our internal auditor.

Our internal auditor also fulfills the internal audit function required by NASDAQ corporate governance rules and provides management and the audit committee with ongoing assessments of our risk management processes and system of internal control.

#### Approval of Related Party Transactions under Israeli Law

#### Fiduciary Duties of Directors and Executive Officers

The Companies Law codifies the fiduciary duties that office holders owe to a company. An office holder is defined in the Companies Law as a general manager, chief business manager, deputy general manager, vice general manager, any other person assuming the responsibilities of any of these positions regardless of such person’s title, a director and any other manager directly subordinate to the general manager. Each person listed in the table under “Item 6.A. Directors, Senior Management and Employees” is an office holder under the Companies Law.

An office holder’s fiduciary duties consist of a duty of care and a duty of loyalty. The duty of care requires an office holder to act with the level of care with which a reasonable office holder in the same position would have acted under the same circumstances. The duty of loyalty requires that an office holder act in good faith and in the best interests of the company.

The duty of care includes a duty to use reasonable means to obtain:

- information on the appropriateness of a given action submitted for his or her approval or performed by virtue of his or her position; and
- all other important information pertaining to these actions.



The duty of loyalty includes a duty to:

refrain from any conflict of interest between the performance of his or her duties in the company and his or her personal affairs;

refrain from any activity that is competitive with the business of the company;

refrain from exploiting any business opportunity of the company in order to receive a personal gain for himself or herself or others; and

disclose to the company any information or documents relating to the company's affairs which the office holder received as a result of his or her position as an office holder.

#### Disclosure of Personal Interests of an Office Holder and Approval of Certain Transactions

The Companies Law requires that an office holder promptly disclose to the board of directors any personal interest that he or she may have and all related material information known to him or her concerning any existing or proposed transaction with the company. A personal interest includes an interest of any person in an act or transaction of a company, including a personal interest of one's relative or of a corporate body in which such person or a relative of such person is a 5% or greater shareholder, director or general manager or in which he or she has the right to appoint at least one director or the general manager, but excluding a personal interest stemming solely from one's ownership of shares in the company.

If it is determined that an office holder has a personal interest in a non-extraordinary transaction, approval by the board of directors is required for the transaction, unless the company's articles of association provide for a different method of approval. Any transaction that is not in the best interest of the company may not be approved by the board of directors.

Our articles of association provide that for non-extraordinary interested party transactions, the board of directors may delegate its approval, or may provide a general approval to certain types of non-extraordinary interested party transactions.

Approval first by the company's audit committee and subsequently by the board of directors is required for an extraordinary transaction, meaning any transaction that is not in the ordinary course of business, not on market terms or that is likely to have a material impact on the company's profitability, assets or liabilities.

A director and any other office holder who has a personal interest in a transaction which is considered at a meeting of the board of directors or the audit committee may generally (unless it is with respect to a transaction which is not an extraordinary transaction) not be present at such a meeting or vote on that matter unless a majority of the directors or members of the audit committee, as applicable, have a personal interest in the matter. If a majority of the members of the audit committee or the board of directors has a personal interest in the approval of such a transaction then all of the directors may participate in deliberations of the audit committee or board of directors, as applicable, with respect to such transaction and vote on the approval thereof and, in such case, shareholder approval is also required.

Pursuant to the Companies Law, compensation arrangements such as insurance, indemnification or exculpation arrangements with office holders who are not the Chief Executive Officer or a director require compensation committee approval and subsequent approval by the board of directors. Compensation arrangements shall be in accordance with the executive compensation policy of the company. In special circumstances, the compensation committee and the board of directors may approve compensation arrangements that are not in compliance with the compensation policy of the company, subject to the approval of a majority vote of the shares present and voting at a shareholders meeting, provided that either: (a) such majority includes at least a majority of the shares held by all shareholders who are not controlling shareholders and do not have a personal interest in such compensation arrangement; or (b) the total number of shares of non-controlling shareholders and shareholders who do not have a personal interest in the compensation arrangement and who vote against the arrangement does not exceed two percent of the company's aggregate voting rights, or the Special Majority Vote for Compensation. In the event that the Special Majority Vote for Compensation is not obtained, the compensation committee and the board of directors may reconsider the compensation arrangement and approve it, after a detailed review.

Pursuant to the Companies Law, compensation arrangements with the Chief Executive Officer require compensation committee approval, approval by the board of directors and Special Majority for Compensation approval at the shareholders' meeting. Compensation arrangements with the Chief Executive Officer shall be in accordance with the compensation policy of the company. In the event that Special Majority Vote for Compensation is not obtained, then the compensation committee and the board of directors may reconsider the compensation arrangement and approve it after a detailed review. Notwithstanding the above, the compensation committee is authorized to refrain from submitting a proposed compensation arrangement with a Chief Executive Officer candidate for shareholder approval, if (a) doing so would jeopardize the company's engagement of the candidate; (b) the candidate did not have a prior business relationship with the company or a controlling shareholder of the company; and (c) the proposed arrangement complies with the company's compensation policy.

With respect to amending an existing compensation arrangement, only the approval of the compensation committee is required, provided the committee determines that the amendment is not material in relation to the existing compensation arrangement. With respect to amending an existing related-party transaction, only the approval of the audit committee is required, provided the committee determines that the amendment is not material in relation to the existing arrangement.

Compensation arrangements with directors who are not controlling shareholders, including compensation arrangements with directors in their capacities as executive officers, (unless exempted under the applicable regulations), require the approval of the compensation committee, the board of directors and the company's shareholders, in that order.

#### Disclosure of Personal Interests of Controlling Shareholders and Approval of Certain Transactions

Pursuant to the Companies Law, the disclosure requirements regarding personal interests that apply to directors and executive officers also apply to a controlling shareholder of a public company. A controlling shareholder is a shareholder who has the ability to direct the activities of a company, including a shareholder who holds 25% or more of the voting rights if no other shareholder holds more than 50% of the voting rights. For this purpose, the holdings of all shareholders who have a personal interest in the same transaction will be aggregated.

An extraordinary transaction between a public company and a controlling shareholder, or in which a controlling shareholder has a personal interest, and the terms of any compensation arrangement of a controlling shareholder who is an office holder or his relative, require the approval of a company's audit committee (or compensation committee with respect to compensation arrangements), board of directors and shareholders, in that order. In addition, the shareholder approval must fulfill one of the following requirements:

at least a majority of the voting rights in the company held by shareholders who have no personal interest in the transaction and who are present and voting at the general meeting, must be voted in favor of approving the transaction (for this purpose, abstentions are disregarded); or

the voting rights held by shareholders who have no personal interest in the transaction and who are present and voting at the general meeting, and who vote against the transaction, do not exceed 2% of the voting rights in the company.

To the extent that any such transaction with a controlling shareholder or his relative is for a period extending beyond three years, shareholder approval is required once every three years, unless, in respect to certain transactions, the audit committee determines that the duration of the transaction is reasonable under the circumstances.

Pursuant to regulations adopted under the Companies Law, a transaction with a controlling shareholder that would otherwise require approval of the shareholders is exempt from shareholders' approval if the audit committee and the board of directors determine that the transaction is on market terms and in the ordinary course of business and does not otherwise harm the company. Under these regulations, a shareholder holding at least 1% of the issued share capital of the company may require, within 14 days of the publication of such determination, that despite such determination by the audit committee and the board of directors, such transaction will require shareholder approval under the same majority requirements that otherwise apply to such transactions.

#### Shareholder Duties

Pursuant to the Companies Law, a shareholder has a duty to act in good faith and in a customary manner toward the company and other shareholders and to refrain from abusing his or her power with respect to the company, including, among other things, in voting at a general meeting and at shareholder class meetings with respect to the following matters:

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

In addition, a shareholder has a general duty to refrain from discriminating against other shareholders.

Certain shareholders also have a duty of fairness toward the company. These shareholders include any controlling shareholder, any shareholder who knows that it has the power to determine the outcome of a shareholder vote and any shareholder who has the power to appoint or to prevent the appointment of an office holder of the company or exercise any other rights available to it under the company's articles of association with respect to the company. The Companies Law does not define the substance of this duty of fairness, except to state that the remedies generally available upon a breach of contract will also apply in the event of a breach of the duty of fairness.

#### Exculpation, Insurance and Indemnification of Office Holders

Under the Companies Law, a company may not exculpate an office holder from liability for a breach of the duty of loyalty. An Israeli company may exculpate an office holder in advance from liability to the company, in whole or in part, for damages caused to the company as a result of a breach of duty of care but only if a provision authorizing such exculpation is included in its articles of association. Our articles of association include such a provision. An Israeli company may not exculpate a director from liability arising out of a prohibited dividend or distribution to shareholders.

An Israeli company may indemnify an office holder in respect of the following liabilities and expenses incurred for acts performed as an office holder, either in advance of an event or following an event, provided a provision authorizing such indemnification is contained in its articles of association:

financial liability imposed on him or her in favor of another person pursuant to a judgment, settlement or arbitrator's award approved by a court. However, if an undertaking to indemnify an office holder with respect to such liability is provided in advance, then such an undertaking must be limited to events which, in the opinion of the board of directors, can be foreseen based on the company's activities when the undertaking to indemnify is given, and to an amount or according to criteria determined by the board of directors as reasonable under the circumstances, and such undertaking shall detail the abovementioned events and amount or criteria;

reasonable litigation expenses, including attorneys' fees, incurred by the office holder as a result of an investigation or proceeding instituted against him or her by an authority authorized to conduct such investigation or proceeding, provided that (i) no indictment was filed against such office holder as a result of such investigation or proceeding; and (ii) no financial liability, such as a criminal penalty, was imposed upon him or her as a substitute for the criminal proceeding as a result of such investigation or proceeding or, if such financial liability was imposed, it was imposed with respect to an offense that does not require proof of criminal intent; and

reasonable litigation expenses, including attorneys' fees, incurred by the office holder or imposed by a court in proceedings instituted against him or her by the company, on its behalf or by a third party or in connection with criminal proceedings in which the office holder was acquitted or as a result of a conviction for an offense that does not require proof of criminal intent.

An Israeli company may insure an office holder against the following liabilities incurred for acts performed as an office holder if and to the extent provided in the company's articles of association:

a breach of the duty of loyalty to the company, to the extent that the office holder acted in good faith and had a reasonable basis to believe that the act would not prejudice the company;

a breach of the duty of care to the company or to a third party, including a breach arising out of the negligent conduct of the office holder;

a financial liability imposed on the office holder in favor of a third party;

a financial liability imposed on the office holder in favor of a third party harmed by a breach in an administrative proceeding; and

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

An Israeli company may not indemnify or insure an office holder against any of the following:

a breach of the duty of loyalty, except to the extent that the office holder acted in good faith and had a reasonable basis to believe that the act would not prejudice the company;

a breach of the duty of care committed intentionally or recklessly, excluding a breach arising out of the negligent conduct of the office holder;

an act or omission committed with intent to derive illegal personal benefit; or

a fine or forfeit levied against the office holder.





Under the Companies Law, exculpation, indemnification and insurance of office holders must be approved by the compensation committee and the board of directors and, with respect to directors and our Chief Executive Officer, also by shareholders.

Our articles of association allow us to indemnify and insure our office holders for any liability imposed on them as a consequence of an act (including any omission) which was performed by virtue of being an office holder. Our office holders are currently covered by a directors' and officers' liability insurance policy.

We have entered into agreements with each of our directors and executive officers exculpating them, to the fullest extent permitted by law, from liability to us for damages caused to us as a result of a breach of duty of care, and undertaking to indemnify them to the fullest extent permitted by law. This indemnification is limited to events determined as foreseeable by the board of directors based on our activities, and to an amount or according to criteria determined by the board of directors as reasonable under the circumstances.

The maximum indemnification amount set forth in such agreements is limited to an amount the higher of (x) 50% of our net assets based on our most recently published financial statements prior to the time that notice of indemnification is provided to us; or (y) \$30 million; provided, however, that in relation to indemnification claimed in connection with a public offering of our securities, the amount, if higher, shall be equal to the aggregate proceeds raised by us and/or selling shareholders. The maximum amount set forth in such agreements is in addition to any amount paid (if paid) under insurance and/or by a third-party pursuant to an indemnification arrangement.

#### D. Employees

As of December 31, 2017, we had 1,813 employees, 1,345 of whom were based in Israel, 363 of whom were based in the United States, 91 of whom were based in the Lithuania, 3 of whom were based in Brazil, 5 of whom were based in Canada and 6 were based in Germany. Of our employees, 1,728 work full-time and 85 work part-time. As of December 31, 2017, we also engaged the services of 221 contractors in Ukraine either directly or through a third-party service organization. The following table shows the breakdown of our global workforce of employees and contractors by category of activity as of the dates indicated:

Department	As of December 31,		
	2015	2016	2017
General and administration	75	110	204
Marketing	183	228	334
Research and development	609	778	1,061
Support and call center	252	245	435
Total	1,119	1,361	2,034

In regards to our Israeli employees, Israeli labor laws govern the length of the workday, minimum wages for employees, procedures for hiring and dismissing employees, determination of severance pay, annual leave, sick days, advance notice of termination of employment, equal opportunity and anti-discrimination laws and other conditions of employment. Subject to certain exceptions, Israeli law generally requires severance pay upon the retirement, death or dismissal of an employee, and requires us and our employees to make payments to the National Insurance Institute, which is similar to the U.S. Social Security Administration. Our employees have pension plans that comply with the applicable Israeli legal requirements and we make monthly contributions to severance pay funds for all employees, which cover potential severance pay obligations.

None of our employees work under any collective bargaining agreements. Extension orders issued by the Israeli Ministry of Economy apply to us and affect matters such as cost of living adjustments to salaries, length of working hours and week, recuperation pay, travel expenses, and pension rights.

We have never experienced labor-related work stoppages or strikes and believe that our relations with our employees are satisfactory.

E. Share Ownership

For information regarding the share ownership of our directors and executive officers, please refer to “Item 6.B. Compensation—Option plans” and “Item 7.A. Major Shareholders.”

Item 7. MAJOR SHAREHOLDERS AND RELATED PARTY  
TRANSACTIONS

A. Major Shareholders

The following table sets forth information with respect to the beneficial ownership of our shares as of February 28, 2018 by:

- each person or entity known by us to own beneficially more than 5% of our outstanding shares;
- each of our directors and executive officers individually; and
- all of our executive officers and directors as a group.

The beneficial ownership of ordinary shares is determined in accordance with the rules of the SEC and generally includes any ordinary shares over which a person exercises sole or shared voting or investment power, or the right to receive the economic benefit of ownership. The percentage of shares beneficially owned is based on 46,888,390 ordinary shares outstanding as of February 28, 2018. We have deemed our ordinary shares subject to stock options that are currently exercisable or exercisable within 60 days of February 28, 2018 or issuable pursuant to RSUs that are subject to vesting conditions expected to occur within 60 days of February 28, 2018 to be outstanding and to be beneficially owned by the person holding the stock option or RSU for the purpose of computing the percentage ownership of that person. We did not deem these shares outstanding, however, for the purpose of computing the percentage ownership of any other person.

All of our shareholders, including the shareholders listed below, have the same voting rights attached to their ordinary shares. See “Item 10. Additional Information—Articles of Association.” None of our principal shareholders nor our directors and executive officers will have different or special voting rights with respect to their ordinary shares. Unless otherwise noted below, each shareholder’s address is Wix.com Ltd., 40 Namal Tel Aviv St., Tel Aviv 6350671 Israel.

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A description of any material relationship that our principal shareholders have had with us or any of our predecessors or affiliates within the past three years is included under “Item 7.B. Major Shareholders and Related Party Transactions—Related Party Transactions.”

Name of Beneficial Owner	Number of Shares Beneficially Held	Percentage of Class	
<b>Directors and Executive Officers</b>			
Avishai Abrahami(1)	1,629,954	3.4	%
Giora Kaplan(2)	594,351	1.3	%
Lior Shemesh(3)	69,197	*	
Nir Zohar(4)	532,953	1.1	%
Omer Shai(5)	315,085	*	
Yaniv Even-Haim(6)	72,122	*	
Deirdre Bigley (7)	1,833	*	
Allon Bloch(7)	3,209	*	
Mark Tluszcz (8)	4,545,088	9.7	%
Yuval Cohen(7)	38,541	*	
Ron Gutler(7)	43,541	*	
Erika Rottenberg(7)	25,855	*	
Roy Saar(9)	196,302	*	
All executive officers and directors as a group (13 persons)	8,068,031	16.5	%
<b>Principal Shareholders</b>			
T. Rowe Price Associates Inc. (10)	6,626,610	14.1	%
Entities affiliated with Mangrove Capital Partners(11)	4,545,088	9.7	%
Entities affiliated with Steadfast Capital Management (12)	3,985,687	8.5	%
FMR LLC (13)	2,585,485	5.5	%
Baillie Gifford & Co (14)	2,414,882	5.2	%

\*Less than 1%.

(1) Shares beneficially owned consist of 96,891 shares and outstanding options to purchase 1,533,063 shares that are exercisable within 60 days of February 28, 2018.

(2) Shares beneficially owned consist of 472,248 shares and outstanding options to purchase 122,103 shares that are exercisable within 60 days of February 28, 2018.

(3) Shares beneficially owned consist of 18,009 shares and outstanding options to purchase 51,188 shares that are exercisable within 60 days of February 28, 2018.

(4) Shares beneficially owned consist of 379,491 shares and outstanding options to purchase 153,462 shares that are exercisable within 60 days of February 28, 2018.

(5) Shares beneficially owned consist of 245,722 shares and outstanding options to purchase 69,363 shares that are exercisable within 60 days of February 28, 2018.

(6) Shares beneficially owned consist of 21,874 shares and outstanding options to purchase 50,248 shares that are exercisable within 60 days of February 28, 2018.

(7) Shares beneficially owned consist solely of shares issuable pursuant to outstanding options and RSUs that are exercisable within 60 days of February 28, 2018.

(8) Shares beneficially owned consist solely of shares and RSUs beneficially owned by entities affiliated with Mangrove as of February 28, 2018 and over which Mr. Tluszcz may be deemed to share voting and dispositive power. See note (11) below.

(9) Shares beneficially owned consist of 185,820 shares and options and RSUs to purchase 10,482 shares that are exercisable within 60 days of February 28, 2018.

This information is based upon a Schedule 13G/A filed by T. Rowe Price Associates, Inc. (“T. Rowe Price”) and T. Rowe Price New Horizons Fund, Inc. (“T. Rowe Price New Horizons”) with the SEC on February 14, 2018. Shares beneficially owned consist of 6,626,610 shares held by T. Rowe Price New Horizons and T. Rowe Price, both of which are companies incorporated and organized under the laws of the state of Maryland, United States. T. Rowe Price is an Investment Adviser registered under Section 203 of the Investment Advisers Act of 1940 and an Investment Company registered under Section 8 of the Investment Company Act of 1940. T Rowe Price does not

(10) serve as custodian of the assets of any of its clients; accordingly, in each instance only the client or the client's custodian or trustee bank has the right to receive dividends paid with respect to, and proceeds from the sale of, such securities. The ultimate power to direct the receipt of dividends paid with respect to, and the proceeds from the sale of, such securities, is vested in the individual and institutional clients which T. Rowe Price serves as investment adviser. Any and all discretionary authority which has been delegated to Price Associates may be revoked in whole or in part at any time. The address of T. Rowe Price is 100 E. Pratt Street, Baltimore, Maryland 21202

Based on a Schedule 13G/A filed by Mangrove II Investments Sarl on February 9, 2018 and other information available to us, shares beneficially owned consists of 4,463,319, shares held by Mangrove II Investments Sarl, and 67,171 shares held by Mangrove Partners SCSp. Mangrove II Investments Sarl is a limited liability company incorporated and organized under the laws of Luxembourg. Mangrove II S.C.A. SICAR is the owner of 100% of the share capital of Mangrove II Investments Sarl. Mangrove II S.C.A. SICAR is a fund incorporated and organized under the laws of Luxembourg in the form of a partnership limited by shares and regulated by the Luxembourg CSSF (Commission de Surveillance du Secteur Financier). Mangrove II S.C.A. SICAR is managed (11) by Mangrove II Management S.A., a private limited liability company incorporated and organized under the laws of Luxembourg. The members of the board of directors of Mangrove II Management S.A. are Mark Tluszc, Willibrord Eheses and Hans-Jürgen Schmitz. Mangrove Capital Partners’ address is 31 Boulevard Joseph II, L-1840, Luxembourg. Mangrove Partners SCSp is managed by Mangrove Founders Sarl, a company incorporated and organized under the laws of Luxembourg. The members of the board of directors of Mangrove Partners SCSp are Hans-Jurgen Schmitz and Willigrord Eheses. The shares beneficially owned by entities affiliated with Mangrove Capital Partners include 14,598 options and RSUs held by Mark Tluszc.

This information is based upon a Schedule 13G/A filed by Robert S. Pitts, Jr., Steadfast Capital Management LP (“Steadfast Management”), Steadfast Advisors LP (“Steadfast Advisors”), Steadfast Long Financial LP (the “Long Investment Manager”), Steadfast Capital, L.P. (“Steadfast Capital”), American Steadfast, L.P. (“American Steadfast”), Steadfast International Master Fund Ltd. (the “Offshore Fund”) and Steadfast Long Capital, L.P. (“Long Capital”) (collectively, the “Steadfast Affiliates”) with the SEC on February 14, 2018. Mr. Pitts (beneficial owner of 3,985,687 ordinary shares) is the controlling principal of Steadfast Management (beneficial owner of 3,777,849 ordinary shares), Steadfast Advisors (beneficial owner of 164,316 ordinary shares) and the Long Investment (12) Manager (beneficial owner of 43,522 shares). Steadfast Advisors has the power to vote and dispose of the securities held by Steadfast Capital (beneficial owner of 164,316 ordinary shares). Steadfast Management has the power to vote and dispose of the securities held by American Steadfast (beneficial owner of 1,335,254 ordinary shares) and the Offshore Fund (beneficial owner of 2,442,595 ordinary shares). The Long Investment Manager has the power to vote and dispose of the securities held by Long Capital (beneficial owner of 43,522 ordinary shares). The Offshore Fund lists its address as c/o Appleby Trust (Cayman) Ltd., Clifton House, 75 Fort Street, P.O. Box 1350, George Town, Grand Cayman KY1-1108. The other Steadfast Affiliates list their address as 450 Park Avenue, 20<sup>th</sup> Floor, New York, New York 10022.

This information is based upon a Schedule 13G/A filed by FMR LLC (“FMR”), with the SEC on February 13, 2018. The address of FMR is 245 Summer Street, Boston, Massachusetts 02210. Pursuant to the Schedule 13G/A, FMR has sole voting power over 404,042 shares and sole dispositive power over 2,585,485 shares. Abigail P. Johnson is a Director, the Chairman, the Chief Executive Officer of FMR LLC. Members of the Johnson family, including Abigail P. Johnson, are the predominant owners, directly or through trusts, of Series B voting common shares of FMR LLC, representing 49% of the voting power of FMR LLC. The Johnson family group and all other Series B shareholders have entered into a shareholders’ voting agreement under which all (13) Series B voting common shares will be voted in accordance with the majority vote of Series B voting common shares. Accordingly, through their ownership of voting common shares and the execution of the shareholders’ voting agreement, members of the Johnson family may be deemed, under the Investment Company Act of 1940, to form a controlling group with respect to FMR LLC. Neither FMR LLC nor Abigail P. Johnson has the sole power to vote or direct the voting of the shares owned directly by the various investment companies registered under the Investment Company Act (“Fidelity Funds”) advised by Fidelity Management & Research Company (“FMR Co”), a wholly owned subsidiary of FMR LLC, which power resides with the Fidelity Funds’ Boards of Trustees. Fidelity Management & Research Company carries out the voting of the shares under written guidelines established by the Fidelity Funds’ Boards of Trustees.

This information is based upon a Schedule 13G filed by Baillie Gifford & Co (“BGC”), with the SEC on January 26, 2018. The address of BGC is Calton Square, 1 Greenside Row, Edinburgh EH1 3AN, Scotland, UK. Pursuant to the Schedule 13G, BGC has sole voting power over 669,438 shares and sole dispositive power over 2,414,882 (14) shares. Securities reported on the Schedule 13G are beneficially owned by Baillie Gifford & Co. and/or one or more of its investment adviser subsidiaries, which may include Baillie Gifford Overseas Limited, on behalf of investment advisory clients, which may include investment companies registered under the Investment Company Act, employee benefit plans, pension funds or other institutional clients.

## Registered Holders

As of February 28, 2018, we had 1 holder of record of our ordinary shares in the United States - Cede & Co., the nominee of The Depository Trust Company. These shareholders held in the aggregate 41,747,038 ordinary shares, representing 89% of the 46,888,390 outstanding ordinary shares as of February 28, 2018. The number of record holders in the United States is not representative of the number of beneficial holders nor is it representative of where such beneficial holders are resident since many of these ordinary shares were held by brokers or other nominees.

## B. Related Party Transactions

Our policy is to enter into transactions with related parties on terms that, on the whole, are no more favorable, or no less favorable, than those available from unaffiliated third parties. Based on our experience in the business sectors in

which we operate and the terms of our transactions with unaffiliated third parties, we believe that all of the transactions described below met this policy standard at the time they occurred.

#### Rights of Appointment

Our current board of directors consists of nine directors. Pursuant to our articles of association in effect prior to our IPO, certain of our shareholders had rights to appoint members of our board of directors. We are not a party to, and are not aware of, any voting agreements among our shareholders.

## Registration Rights

Our shareholders' agreement entitles certain of our shareholders to registration rights. In accordance with this agreement, and subject to conditions listed below, entities which are entitled to registration rights include the company's founders and the entities affiliated with Mangrove Capital Partners.

### Form F-1 Demand Rights

At any time following the closing of the IPO, subject, however, to the 180-day lock-up agreement entered into with the underwriters in connection with the IPO, upon the request of the holders of more than 50% of the shares held by our former preferred shareholders, we are required to file a registration statement on Form F-1 in respect of the ordinary shares held by our former preferred shareholders. Following a request to effect such a registration, we are required to give notice of the request to the other holders of registrable securities and offer them an opportunity to include their shares in the registration statement. We are not required to effect more than two registrations on Form F-1 and we are only required to do so if the aggregate proceeds from any such registration are estimated in good faith to be in excess of \$2.0 million.

### Form F-3 Demand Rights

Upon the request of the holders of more than 50% of the shares held by our former preferred shareholders, we are required to file a registration statement on Form F-3 in respect of the ordinary shares held by our former preferred shareholders. Following a request to effect such a registration, we are required to give notice of the request to the other holders of registrable securities and offer them an opportunity to include their shares in the registration statement. We are not required to effect a registration on Form F-3 more than twice in any 12-month period and are only required to do so if the aggregate proceeds from any such registration are estimated in good faith to be in excess of \$1.0 million.

### Piggyback registration rights

Shareholders holding registrable securities have the right to request that we include their registrable securities in underwritten offerings undertaken by us in the future for our own account or the account of other security holders, subject to specified exceptions.

### Cutback

In the event that the managing underwriter advises the registering shareholders that marketing factors require a limitation on the number of shares that can be included in a registered offering, the shares will be included in the registration statement in an agreed order of preference among the holders of registration rights. The same preference also applies in the case of a piggyback registration, but we have first preference and the number of shares of shareholders that are included may not be less than 25% of the total number of shares included in the offering.

### Termination

All registration rights granted to holders of registrable securities terminate on the fifth anniversary of the closing of our IPO and, with respect to any holder of registrable securities who both (i) holds (together with shares held by its permitted transferees) less than 5% of our outstanding shares, and (ii) the shares held by such shareholder can be sold without volume limitations within a 90-day period under Rule 144.

### Expenses



We will pay all expenses in carrying out the foregoing registrations other than selling shareholders' underwriting discounts and transfer taxes.

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## Agreements with Directors and Officers

### Employment Agreements

We have entered into employment agreements with each of our officers who work for us as employees. We enter into consulting agreements where the executive officer requests that we engage him or her through a wholly-owned personal service corporation. These agreements each contain provisions regarding noncompetition, confidentiality of information and assignment of inventions. The enforceability of covenants not to compete is subject to limitations.

The provisions of certain of our executive officers' employment agreements contain termination or change of control provisions. With respect to certain executive officers, either we or the executive officer may terminate his or her employment by giving 90 calendar days' advance written notice to the other party. We may also terminate an executive officer's employment agreement for good reason (as defined the employment agreement), or in the event of a merger or acquisition transaction.

### Options

Since our inception, we have granted options to purchase our ordinary shares to our officers and certain of our directors. Such option agreements may contain acceleration provisions upon certain merger, acquisition, or change of control transactions. We describe our option plans under "Item 6.B. Directors, Senior Management and Employees—Compensation—2007 Share Option Plan" and "Item 6.B. Directors, Senior Management and Employees—Compensation—2013 Incentive Compensation Plan". If an executive officer or director is involuntarily terminated without cause, or the executive officer or director voluntarily terminates his or her employment for good reason (as defined in the employment agreement), all options will immediately vest. Upon the consummation of a merger or acquisition transaction, an executive officer or director's remaining unvested options will vest either on a monthly basis, with the first installment vesting one month after the closing of the transaction, or over the remaining vesting period, whichever is shorter. If an executive officer or director's employment is terminated within a certain period following a merger or acquisition transaction, his or her unvested options will vest immediately, subject to other certain conditions.

### Exculpation, Indemnification and Insurance

Our articles of association permit us to exculpate, indemnify and insure certain of our office holders to the fullest extent permitted by the Companies Law. We have entered into agreements with certain office holders, exculpating them from a breach of their duty of care to us to the fullest extent permitted by law and undertaking to indemnify them to the fullest extent permitted by law, subject to certain exceptions, including with respect to liabilities resulting from the IPO to the extent that these liabilities are not covered by insurance. See "Item 6.B. Directors, Senior Management and Employees—Exculpation, Insurance and Indemnification of Directors and Officers."

### Family Relationships

See Item 6.C. "– Board Practices."

### C. Interests of Experts and Counsel

Not applicable.

## Item 8. FINANCIAL INFORMATION

### A. Consolidated Statements and Other Financial Information

#### Consolidated Financial Statements

We have appended our consolidated financial statements at the end of this annual report, starting at page F-2, as part of this annual report.

#### Legal Proceedings

#### U.S. Voluntary Regulatory Disclosure

In May 2013, we made voluntary self-disclosures to the U.S. Treasury Department's Office of Foreign Assets Control, or OFAC, and U.S. Commerce Department's Bureau of Industry and Security, or BIS. The disclosures related to our determination made during the course of an internal review in early 2013 that we had 16 premium subscriptions, out of a total of approximately 583,000 premium subscriptions, with geographic internet protocols, or GEOIP, addresses in Cuba, Iran, North Korea, North Sudan or Syria, or U.S. Sanctioned Countries, or that had otherwise provided personal information indicating that they may be located in U.S. Sanctioned Countries. As part of a subsequent internal review, we also determined that we had 32,600 registered users, or less than 0.1% of our total user base of approximately 33 million as measured as of April 30, 2013, with GEOIP addresses in U.S. Sanctioned Countries. See "Item 3.D. Risk Factors – We are subject to trade and economic and export sanctions laws that may govern or restrict our business and we, and our directors and officers, may be subject to fines or other penalties for non-compliance with those laws."

We noted in our voluntary self-disclosure that we intend to seek an interpretation regarding whether the provision of our services falls within a general license issued by OFAC that authorizes the export to certain U.S. Sanctioned Countries of software and services incident to the exchange of personal communications over the Internet, such as instant messaging, chat and email, social networking, sharing of photos and movies, web browsing, and blogging, provided that such services are publicly available at no cost to the registered user. OFAC subsequently issued a new general license that expanded the range of free and fee-based services that could be provided to persons in Iran; however, the interpretation continued to prohibit webhosting for "commercial endeavors." In light of our inability to know whether our registered users' websites are for personal or commercial purposes, we have decided at this time not to seek any further interpretation from OFAC. We have terminated the registered users and the premium subscriptions that may have been from a U.S. Sanctioned Country and have blocked the ability of new users—with or without a premium subscription—that have a GEOIP address in a U.S. Sanctioned Country to access our cloud-based software or services.

We cannot predict when OFAC and BIS will complete their respective reviews and determinations as to whether any violation of relevant U.S. sanctions or export laws occurred or is ongoing. In case of an apparent violation, OFAC and/or BIS could decide not to impose penalties but issue only a warning or cautionary letter. However, if OFAC or BIS determines that we have violated applicable regulations, we may face civil and/or criminal penalties and may also suffer reputational harm, any of which could have a material adverse effect on our business and financial results.

With respect to our subsidiary DeviantArt, Inc., in February 2017, we acquired DeviantArt, the largest online social network for artists and art enthusiasts, and a platform for emerging and established artists to exhibit, promote, and share their works with an enthusiastic, art-centric community. In anticipation of the acquisition and before the purchase date, DeviantArt initiated a comprehensive investigation, with the assistance of outside counsel, of its compliance with OFAC regulations during the prior six years. As a result of this investigation, in July 2017, DeviantArt made a voluntary self-disclosure to OFAC of potential violations of sanctions regulations. The disclosure related to DeviantArt's determination that it had (1) users who had a GEOIP address of a U.S. Sanctioned Country; (2)

users who self-identified as being from a Sanctioned Country; or (3) users who self-identified as being from a Sanctioned Country, and had either a GEOIP address in a Sanctioned Country, or had a Sanctioned Country as part of an address on file. Because most of the activity on the DeviantArt platform involves the transmission and sale of information and informational materials, DeviantArt asserted that many of the transactions that could have constituted potential OFAC violations were exempt under the relevant statute and under OFAC general licenses. DeviantArt has enhanced its OFAC compliance program and has terminated activity involving Sanctioned Countries unless OFAC authorization exists.

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In February 2018, OFAC replied with follow up questions regarding the transactions described in the disclosure, and DeviantArt provided responses. On March 6, 2018, OFAC sent DeviantArt a Cautionary Letter, which represents a final enforcement response to the potential violations, but does not constitute a final OFAC determination as to whether violations occurred.

DeviantArt has undertaken a number of remedial measures to prevent similar occurrences, including disabling commercial and/or transactional functionalities of the DeviantArt platform within the user accounts that have a GEOIP address in a U.S. Sanctioned Country. DeviantArt has also since instituted new daily screening practices and updated its systems to prevent users from U.S. Sanctioned Countries entering billing information with an address in that location.

#### Israeli Voluntary Regulatory Disclosure

In September 2013, we voluntarily approached the Israeli Ministry of Finance and asked for its formal position regarding the applicability of The Israeli Trading with the Enemy Ordinance—1939, or the Ordinance, to the type of services that we provide. The Ordinance prohibits any Israeli person from trading goods with enemy countries or with the residents of enemy countries. The Israeli Ministry of Finance, which is responsible for implementing the Ordinance, has currently determined enemy countries to be Iran, Lebanon and Syria, or Israeli Sanctioned Countries. The Ordinance was enacted in 1939 and does not expressly address online services. We therefore cannot state with certainty how the provisions of the Ordinance apply to the type of services that we provide.

We do not know the extent to which the Ministry of Finance will want to have further discussions with us, the timing of those discussions or the ultimate outcome of their deliberations. Although the Ordinance allows Israeli persons to apply for a permit to trade with Israeli Sanctioned Countries or their residents, we are not aware of a permit being granted or denied in the past to a person providing the type of services that we provide.

Lebanon is the only Israeli Sanctioned Country that is not also a U.S. Sanctioned Country. We have ceased providing services to users with a GEOIP address in a U.S. Sanctioned Country. The number of registered users and premium subscribers that we have in Lebanon is not material to our business, however, if we stop providing services in Lebanon, it may decrease the number of our current and future subscribers from other countries, particularly in the Middle East, who may cease using our services in protest to us blocking accounts in Israeli Sanctioned Countries.

In addition, if it is determined by a competent court that sanctions under the Ordinance cover the type of services that we provide, we, our officers and employees may be subject to criminal and/or civil actions. We believe that our initiation of voluntary discussions with the Israeli Ministry of Finance may reduce such exposure, but any liability to which we are subject to could adversely affect our personnel, brand and reputation.

## Other Matters

From time to time, we may be party to litigation or subject to claims incident to the ordinary course of business. Other than as described herein, we are not subject to any litigation the outcome of which might have a material adverse effect on our business, operating results or financial condition.

## Dividend Policy

We have never declared or paid any cash dividends on our ordinary shares. We do not anticipate paying any dividends in the foreseeable future. We currently intend to retain future earnings, if any, to finance operations and expand our business. Our board of directors has sole discretion whether to pay dividends. If our board of directors decides to pay dividends, the form, frequency and amount will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that our directors may deem relevant.

## B. Significant Changes

No significant changes have occurred since December 31, 2017, except as otherwise disclosed in this annual report.

## Item 9. THE OFFER AND LISTING

## A. Listing Details

Our ordinary shares have been quoted on NASDAQ under the symbol “WIX” since November 6, 2013. Prior to that date, there was no public trading market for our ordinary shares. Our IPO was priced at \$16.50 per share on November 5, 2013. The following table sets forth for the periods indicated the high and low sales prices per ordinary share as reported on NASDAQ:

	Low	High
	(in USD)	
Annual:		
2017	44.45	86.15
2016	14.79	52.50
2015	16.72	28.63
2014	14.28	32.69
2013 (beginning November 6, 2013)	16.19	28.89
Quarterly:		
First Quarter 2018 (through March 28, 2018)	55.80	87.65
Fourth Quarter 2017	50.90	73.35
Third Quarter 2017	54.55	77.93
Second Quarter 2017	67.15	86.15
First Quarter 2017	44.45	71.10
Fourth Quarter 2016	38.65	52.50
Third Quarter 2016	30.31	49.49
Second Quarter 2016	19.70	30.42
First Quarter 2016	14.79	23.25
Most Recent Six Months:		
March 2018 (through March 28, 2018)	73.65	87.65
February 2018	55.80	77.85

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January 2018	57.05	63.20
December 2017	50.90	61.60
November 2017	52.80	71.80
October 2017	67.05	73.35

As of March 28, 2018 the last reported sale price of our ordinary shares on NASDAQ was \$76.50 per share. As of February 28, 2018, we had 12 holders of record of our ordinary shares, including Wix.com Ltd. ESOP, Tamir Fishman Trust 2004 Ltd. and CEDE & Co. The actual number of shareholders is greater than this number of record holders, and includes shareholders who are beneficial owners, but whose shares are held in street name by brokers and other nominees.

B. Plan of Distribution

Not applicable.

C. Markets

See “—Listing Details” above.

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

Item 10. ADDITIONAL INFORMATION

A. Share Capital

Not applicable.

B. Articles of Association

Our authorized share capital consists of 500 million ordinary shares, par value NIS 0.01 per share, of which 46,888,390 shares are issued and outstanding as of February 28, 2018.

Our ordinary shares are not redeemable and do not have any preemptive rights. All of our ordinary shares have equal rights and are fully paid.

Our board of directors may determine the issue prices and terms for such shares or other securities, and may further determine any other provision relating to such issue of shares or securities. We may also issue and redeem redeemable securities on such terms and in such manner as our board of directors shall determine. Our board of directors may not make calls or assessments on our ordinary shares. Our board of directors is not authorized to issue preferred shares absent an amendment to our articles of association in order to authorize such shares. Such an amendment would require the affirmative vote of the holders of a majority of our outstanding shares entitled to vote at a general meeting.

The description below is a summary of the material provisions of our articles of association and of the Companies Law.



## Voting

Holders of our ordinary shares have one vote for each ordinary share held on all matters submitted to a vote of shareholders at a shareholder meeting. Shareholders may vote at shareholder meetings either in person, by proxy or by written ballot. Israeli law does not allow public companies to adopt shareholder resolutions by means of written consent in lieu of a shareholder meeting. An amendment to our articles of association generally requires a vote of the holders of a majority of our outstanding ordinary shares entitled to vote at a general meeting of shareholders and voting in person or by proxy at the meeting, and the amendment of a limited number of provisions, such as the provision dividing our directors into three classes, requires a vote of the holders of 66<sup>2</sup>/<sub>3</sub>% of our outstanding ordinary shares entitled to vote at a general meeting and voting in person or by proxy at the meeting.

## Share Ownership Restrictions

The ownership or voting of ordinary shares by non-residents of Israel is not restricted in any way by our articles of association or the laws of the State of Israel, except that citizens of countries which are in a state of war with Israel may not be recognized as owners of ordinary shares.

## Transfer of Shares

Fully paid ordinary shares are issued in registered form and may be freely transferred under our articles of association unless the transfer is restricted or prohibited by another instrument, Israeli law or the rules of a stock exchange on which the shares are traded.

## Election and Removal of Directors

Our board of directors is divided into three classes with staggered three year terms. Only one class of directors is elected at each annual meeting of our shareholders, with the other classes continuing for the remainder of their respective three-year terms. Our ordinary shares do not have cumulative voting rights for the election of directors. Rather, under our articles of association our directors are elected, upon expiration of the term of office of any director, by the holders of a simple majority of our ordinary shares at a general shareholder meeting (excluding abstentions). As a result, the holders of our ordinary shares that represent more than 50% of the voting power represented at a shareholder meeting and voting thereon (excluding abstentions) have the power to elect any or all of our directors whose positions are being filled at that meeting. Shareholders may only remove a director upon the affirmative vote of the holders of at least 66<sup>2</sup>/<sub>3</sub>% of the outstanding shares having the right to vote at a general meeting of shareholders and voting in person or by proxy at the meeting. Vacancies on our board of directors may only be filled by the vote of a simple majority of the directors then in office as described under “Item 6.C. Directors, Senior Management and Employees—Board Practices” For additional information regarding the election of and voting by directors, see “Item 6.C. Directors, Senior Management and Employees—Board Practices.”

## Dividend and Liquidation Rights

Under Israeli law, we may declare and pay a dividend only if, upon the reasonable determination of our board of directors, the distribution will not prevent us from being able to meet the terms of our existing and contingent obligations as they become due. Under the Companies Law, the distribution amount is further limited to the greater of retained earnings or earnings generated over the two most recent years according to our then last reviewed or audited financial statements, provided that the date of the financial statements is not more than six months prior to the date of distribution. In the event that we do not have retained earnings and earnings legally available for distribution, as defined in the Companies Law, we may seek the approval of the court in order to distribute a dividend. The court may approve our request if it is convinced that there is no reasonable concern that the payment of a dividend will prevent us from satisfying our existing and foreseeable obligations as they become due.

In the event of our liquidation, after satisfaction of liabilities to creditors, our assets will be distributed to the holders of ordinary shares on a pro-rata basis. Dividend and liquidation rights may be affected by the grant of preferential dividend or distribution rights to the holders of a class of shares with preferential rights that may be authorized in the future. See “Item 8.A. Financial Information—Consolidated Statements and Other Financial Information—Dividend Policy.”

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## Shareholder Meetings

We are required to convene an annual general meeting of our shareholders once every calendar year, not more than 15 months following the preceding annual general meeting. Our board of directors may convene a special general meeting of our shareholders and is required to do so at the request of one or more holders of 5% or more of our share capital and 1% of our voting power, or at the request of one or more holders of 5% or more of our voting power. All shareholder meetings require prior notice of at least 14 days and, in certain cases, 35 days. Shareholders must comply with advance notice provisions to bring business before, or nominate directors for election at, a shareholder meeting. The chairperson of our board of directors, the Lead Independent Director, or another one of our directors authorized by our board of directors presides over our general meetings. If either of such persons is not present within 15 minutes from the appointed time for the commencement of the meeting, the directors present at such meeting shall appoint one of our directors as the chairperson for such meeting and if they fail to do so, then the shareholders present shall appoint one of our directors or office holders to act as chairperson and if any such person refuses to so act or is not present, then one of the shareholders present at such meeting shall act as chairperson. Subject to the provisions of the Companies Law and the regulations promulgated thereunder, shareholders entitled to participate and vote at general meetings are the shareholders of record on a date to be decided by the board of directors, which may be between four and 40 days prior to the date of the meeting, depending on the type of meeting and whether written proxies are being used.

## Quorum

The quorum required for a meeting of shareholders consists of at least two shareholders present in person, by proxy or by written ballot, who hold or represent between them at least 25% of our voting power. A meeting adjourned for lack of a quorum generally is adjourned to the same day in the following week at the same time and place (without requirement of additional notification to the shareholders), or to a later time, if indicated in the notice to the meeting or to such other time and place as determined by the board of directors in a notice to our shareholders. At the reconvened meeting, if a quorum is not present within half an hour from the appointed time for the commencement of the meeting, the meeting will take place with whatever number of participants are present, unless the meeting was called pursuant to a request by our shareholders, in which case the quorum required is the number of shareholders required to call the meeting as described under “—Shareholder Meetings.”

## Resolutions

Under the Companies Law, unless otherwise provided in the articles of association or applicable law, all resolutions of the shareholders require a simple majority of the voting rights represented at the meeting, in person, by proxy or by written ballot, and voting on the resolution (excluding abstentions).

## Access to Corporate Records

Under the Companies Law, all shareholders generally have the right to review minutes of our general meetings, our shareholder register, including with respect to material shareholders, our articles of association, our financial statements and any document we are required by law to file publicly with the Israeli Companies Registrar or the Israeli Securities Authority. Any shareholder who specifies the purpose of its request may request to review any document in our possession that relates to any action or transaction with a related party which requires shareholder approval under the Companies Law. We may deny a request to review a document if we determine that the request was not made in good faith, that the document contains a trade secret or patent or that the document's disclosure may otherwise impair our interests.

## Acquisitions under Israeli Law

### Full Tender Offer

A person wishing to acquire shares of a public Israeli company and who could as a result hold over 90% of the target company's voting rights or the target company's issued and outstanding share capital (or of a class thereof), is required by the Companies Law to make a tender offer to all of the company's shareholders for the purchase of all of the issued and outstanding shares of the company (or the applicable class). If (a) the shareholders who do not accept the offer hold less than 5% of the issued and outstanding share capital of the company (or the applicable class) and the shareholders who accept the offer constitute a majority of the offerees that do not have a personal interest in the acceptance of the tender offer or (b) the shareholders who did not accept the tender offer hold less than 2% of the issued and outstanding share capital of the company (or of the applicable class), all of the shares that the acquirer offered to purchase will be transferred to the acquirer by operation of law. A shareholder who had its shares so transferred may petition the court within six months from the date of acceptance of the full tender offer, regardless of whether such shareholder agreed to the offer, to determine whether the tender offer was for less than fair value and whether the fair value should be paid as determined by the court. However, an offeror may provide in the offer that a shareholder who accepted the offer will not be entitled to appraisal rights as described in the preceding sentence, as long as the offeror and the company disclosed the information required by law in connection with the tender offer. If the full tender offer was not accepted in accordance with any of the above alternatives, the acquirer may not acquire shares of the company that will increase its holdings to more than 90% of the company's issued and outstanding share capital (or of the applicable class) from shareholders who accepted the tender offer.

### Special Tender Offer

The Companies Law provides that an acquisition of shares of an Israeli public company must be made by means of a special tender offer if as a result of the acquisition the purchaser would become a holder of 25% or more of the voting rights in the company. This rule does not apply if there is already another holder of 25% or more of the voting rights in the company. Similarly, the Companies Law provides that an acquisition of shares in a public company must be made by means of a tender offer if as a result of the acquisition the purchaser would become a holder of more than 45% of the voting rights in the company, if there is no other shareholder of the company who holds more than 45% of the voting rights in the company. These requirements do not apply if the acquisition (i) occurs in the context of a private placement by the company that received shareholder approval, (ii) was from a shareholder holding 25% or more of the voting rights in the company and resulted in the acquirer becoming a holder of 25% or more of the voting rights in the company, or (iii) was from a holder of more than 45% of the voting rights in the company and resulted in the acquirer becoming a holder of more than 45% of the voting rights in the company. A special tender offer may be consummated only if (i) at least 5% of the voting power attached to the company's outstanding shares will be acquired by the offeror and (ii) the number of shares tendered in the offer exceeds the number of shares whose holders objected to the offer (excluding controlling shareholders, holders of 25% or more of the voting rights in the company and any person having a personal interest in the acceptance of the tender offer).

In the event that a special tender offer is made, a company's board of directors is required to express its opinion on the advisability of the offer, or shall abstain from expressing any opinion if it is unable to do so, provided that it gives the reasons for its abstention. An office holder in a target company who, in his or her capacity as an office holder, performs an action the purpose of which is to cause the failure of an existing or foreseeable special tender offer or is to impair the chances of its acceptance, is liable to the potential purchaser and shareholders for damages, unless such office holder acted in good faith and had reasonable grounds to believe he or she was acting for the benefit of the company. However, office holders of the target company may negotiate with the potential purchaser in order to improve the terms of the special tender offer, and may further negotiate with third parties in order to obtain a competing offer.



If a special tender offer is accepted, then shareholders who did not respond to or that had objected the offer may accept the offer within four days of the last day set for the acceptance of the offer.

In the event that a special tender offer is accepted, then the purchaser or any person or entity controlling it or under common control with the purchaser or such controlling person or entity may not make a subsequent tender offer for the purchase of shares of the target company and may not enter into a merger with the target company for a period of one year from the date of the offer, unless the purchaser or such person or entity undertook to effect such an offer or merger in the initial special tender offer.

## Merger

The Companies Law permits merger transactions if approved by each party's board of directors and, unless certain conditions described under the Companies Law are met, a majority of each party's shareholders. The board of directors of a merging company is required pursuant to the Companies Law to discuss and determine whether in its opinion there exists a reasonable concern that as a result of a proposed merger, the surviving company will not be able to satisfy its obligations towards its creditors, such determination taking into account the financial status of the merging companies. If the board of directors determines that such a concern exists, it may not approve a proposed merger. Following the approval of the board of directors of each of the merging companies, the boards of directors must jointly prepare a merger proposal for submission to the Israeli Registrar of Companies.

For purposes of the shareholder vote, unless a court rules otherwise, if one of the merging companies (or any person who holds 25% or more of the outstanding shares or the right to appoint 25% or more of the directors of one of the merging companies) holds shares in the other merging company, the merger will not be deemed approved if a majority of the shares voted at the shareholders meeting by shareholders other than the other party to the merger, or by any person who holds 25% or more of the outstanding shares or the right to appoint 25% or more of the directors of the other party, vote against the merger. In addition, if the non-surviving entity of the merger has more than one class of shares, the merger must be approved by each class of shareholders. If the transaction would have been approved but for the separate approval of each class or the exclusion of the votes of certain shareholders as provided above, a court may still approve the merger upon the request of holders of at least 25% of the voting rights of a company, if the court holds that the merger is fair and reasonable, taking into account the value of the parties to the merger and the consideration offered to the shareholders. If a merger is with a company's controlling shareholder or if the controlling shareholder has a personal interest in the merger, then the merger is instead subject to the same special majority approval that governs all extraordinary transactions with controlling shareholders (as described above under "Item 6.C. Directors, Senior Management and Employees—Board Practices.")

Under the Companies Law, each merging company must inform its secured creditors of the proposed merger plans. Upon the request of a creditor of either party to the proposed merger, the court may delay or prevent the merger if it concludes that there exists a reasonable concern that, as a result of the merger, the surviving company will be unable to satisfy the obligations of any of the parties to the merger, and may further give instructions to secure the rights of creditors.

In addition, a merger may not be completed unless at least 50 days have passed from the date that a proposal for approval of the merger is filed with the Israeli Registrar of Companies and 30 days from the date that shareholder approval of both merging companies is obtained.

## Transactions with Interested Shareholders

Our articles of association contain a provision that prohibits us from engaging in any business combination with any interested shareholder for a period of three years following the date that the shareholder became an interested shareholder, unless:

prior to that date, the board of directors of the corporation approved either the business combination or the transaction that resulted in the shareholder becoming an interested shareholder; or

upon consummation of the transaction that resulted in the shareholder becoming an interested shareholder, the interested shareholder owned at least 85% of the voting share of the corporation outstanding at the time the transaction commenced, excluding, for purposes of determining the number of shares outstanding, unissued shares of the company which may be issued pursuant to any agreement, arrangement or understanding, or upon exercise of conversion rights, warrants or options, or otherwise.

A “business combination” is defined to include the following:

any merger or consolidation involving the corporation and the interested shareholder;

any sale, transfer, pledge or other disposition of 10% or more of the assets of the corporation involving the interested shareholder;

subject to certain exceptions, any transaction that results in the issuance or transfer by the corporation of any shares of the corporation to the interested shareholder;

any transaction involving the corporation that has the effect of increasing the proportionate share of the shares of any class or series of the corporation beneficially owned by the interested shareholder; or

the receipt by the interested shareholder or the benefit of any loans, advances, guarantees, pledges or other financial benefits provided by or through the corporation.

An “interested shareholder” is defined as an entity or person beneficially owning 15% or more of the outstanding voting shares of the company and any entity or person affiliated with or controlling or controlled by any of these entities or persons.

This provision may have the effect of preventing, delaying or discouraging coercive takeover practices and inadequate takeover bids. This provision is also designed, in part, to encourage persons seeking to acquire control of our company to negotiate first with our board. We believe that the benefits of increased protection of our potential ability to negotiate more favorable terms with an unfriendly or unsolicited acquirer outweigh the disadvantages of discouraging a proposal to acquire our company.

## Transfer Agent and Registrar

The transfer agent and registrar for our ordinary shares is American Stock Transfer & Trust Company, New York, New York.

## C. Material Contracts

Summaries of the following material contracts and amendments to these contracts are included in this annual report in the places indicated:

Material Contract	Location in This Annual Report
2013 Incentive Compensation Plan	“ITEM 6.B Directors, Senior Management and Employees – Compensation – 2013 Incentive Compensation Plan.”
2007 Share Option Plan	“ITEM 6.B Directors, Senior Management and Employees – Compensation – 2007 Share Option Plan.”
Amended and Restated Shareholders Agreement	“ITEM 7.B Major Shareholders and Related Party Transactions – Related Party Transactions – Registration Rights.”
Compensation Policies	“ITEM 6.C Directors, Senior Management and Employees – Board Practices – Compensation Policies under the Companies Law.”
Wix.com Ltd. 2013 Employee Stock Purchase Plan	“ITEM 6.B Directors, Senior Management and Employees – Compensation – Employee Stock Purchase Plan.”
Form of Indemnification Agreement	“ITEM 6.C – Directors, Senior Management and Employees – Board Practices – Exculpation, Insurance and Indemnification of Office Holders.”

## D. Exchange Controls

In 1998, Israeli currency control regulations were liberalized significantly, so that Israeli residents generally may freely deal in foreign currency and foreign assets, and non-residents may freely deal in Israeli currency and Israeli assets. There are currently no Israeli currency control restrictions on remittances of dividends on the ordinary shares or the proceeds from the sale of the shares provided that all taxes were paid or withheld; however, legislation remains in effect pursuant to which currency controls can be imposed by administrative action at any time.

Non-residents of Israel may freely hold and trade our securities. Neither our articles of association nor the laws of the State of Israel restrict in any way the ownership or voting of ordinary shares by non-residents, except that such restrictions may exist with respect to citizens of countries which are in a state of war with Israel. Israeli residents are allowed to purchase our ordinary shares.

## E. Taxation

The following description is not intended to constitute a complete analysis of all tax consequences relating to the acquisition, ownership and disposition of our ordinary shares. You should consult your own tax advisor concerning the tax consequences of your particular situation, as well as any tax consequences that may arise under the laws of any state, local, foreign or other taxing jurisdiction.

## Israeli Tax Considerations and Government Programs

The following is a brief summary of the material Israeli tax laws applicable to us, and certain Israeli Government programs that benefit us. This summary does not discuss all the aspects of Israeli tax law that may be relevant to a particular investor in light of his or her personal investment circumstances or to some types of investors subject to special treatment under Israeli law. Examples of such investors include residents of Israel or traders in securities who are subject to special tax regimes not covered in this discussion. To the extent that the discussion is based on new tax legislation that has not yet been subject to judicial or administrative interpretation, we cannot assure you that the



appropriate tax authorities or the courts will accept the views expressed in this discussion. The discussion below is subject to change, including due to amendments under Israeli law or changes to the applicable judicial or administrative interpretations of Israeli law, which change could affect the tax consequences described below.

## General Corporate Tax Structure in Israel

Israeli companies are generally subject to corporate tax on their taxable income. As of 2018, the corporate tax rate is 23% (in 2017, the corporate tax rate was 24%, in 2016, the corporate tax rate was 25% and in 2015, the corporate tax rate was 26.5%). In December 2016, the Israeli Parliament approved the Economic Efficiency Law (Legislative Amendments for Applying the Economic Policy for the 2017 and 2018 Budget Years), 2016 which reduced the corporate income tax rate to 24% effective from January 1, 2017 and to 23% effective from January 1, 2018.

However, the effective tax rate payable by a company that qualifies as an Industrial Company that derives income from an Approved Enterprise, a Beneficiary Enterprise or a Preferred Enterprise (as discussed below) may be considerably less. Capital gains derived by an Israeli company are subject to the prevailing corporate tax rate.

### Law for the Encouragement of Industry (Taxes), 5729-1969

The Law for the Encouragement of Industry (Taxes), 5729-1969, generally referred to as the Industry Encouragement Law, provides several tax benefits for “Industrial Companies.” We believe that we currently qualify as an Industrial Company within the meaning of the Industry Encouragement Law.

The Industry Encouragement Law defines an “Industrial Company” as an Israeli resident-company, of which 90% or more of its income in any tax year, other than income from defense loans, is derived from an “Industrial Enterprise” owned by it. An “Industrial Enterprise” is defined as an enterprise whose principal activity in a given tax year is industrial production.

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

- amortization of the cost of purchased a patent, rights to use a patent, and know-how, which are used for the development or advancement of the company, over an eight-year period, commencing on the year in which such rights were first exercised;
- under limited conditions, an election to file consolidated tax returns with related Israeli Industrial Companies; and
- expenses related to a public offering are deductible in equal amounts over three years.

Eligibility for benefits under the Industry Encouragement Law is not contingent upon approval of any governmental authority.

There can be no assurance that we will continue to qualify as an Industrial Company or that the benefits described above will be available in the future.

### Law for the Encouragement of Capital Investments, 5719-1959

The Law for the Encouragement of Capital Investments, 5719-1959, generally referred to as the Investment Law, provides certain incentives for capital investments in production facilities (or other eligible assets).

The Investment Law was significantly amended effective January 1, 2011, or the 2011 Amendment. The 2011 Amendment introduced new benefits to replace those granted in accordance with the provisions of the Investment Law in effect prior to the 2011 Amendment. However, companies entitled to benefits under the Investment Law as in effect prior to January 1, 2011 were entitled to choose to continue to enjoy such benefits, provided that certain conditions are met, or elect instead to forego such benefits and have the benefits of the 2011 Amendment apply.



## Tax Benefits Subsequent to the 2005 Amendment

The 2005 Amendment applies to new investment programs and investment programs commencing after 2004, but does not apply to investment programs approved prior to April 1, 2005. The 2005 Amendment provides that terms and benefits included in any certificate of approval that was granted before the 2005 Amendment became effective (April 1, 2005) will remain subject to the provisions of the Investment Law as in effect on the date of such approval. Pursuant to the 2005 Amendment, the Investment Center will continue to grant Approved Enterprise status to qualifying investments. The 2005 Amendment, however, limits the scope of enterprises that may be approved by the Investment Center by setting criteria for the approval of a facility as an Approved Enterprise, such as provisions generally requiring that at least 25% of the Approved Enterprise's income be derived from exports.

The 2005 Amendment provides that Approved Enterprise status will only be necessary for receiving cash grants. As a result, it was no longer necessary for a company to obtain Approved Enterprise status in order to receive the tax benefits previously available under the alternative benefits track. Rather, a company may claim the tax benefits offered by the Investment Law directly in its tax returns, provided that its facilities meet the criteria for tax benefits set forth in the amendment. Companies are entitled to approach the Israeli Tax Authority for a pre-ruling regarding their eligibility for benefits under the Investment Law, as amended.

In order to receive the tax benefits, the 2005 Amendment states that a company must make an investment which meets all of the conditions, including exceeding a minimum investment amount specified in the Investment Law. Such investment allows a company to receive "Beneficiary Enterprise" status, and may be made over a period of no more than three years from the end of the year in which the company requested to have the tax benefits apply to its Beneficiary Enterprise. Where the company requests to apply the tax benefits to an expansion of existing facilities, only the expansion will be considered to be a Beneficiary Enterprise and the company's effective tax rate will be the weighted average of the applicable rates. In this case, the minimum investment required in order to qualify as a Beneficiary Enterprise is required to exceed a certain percentage of the value of the company's production assets before the expansion.

The extent of the tax benefits available under the 2005 Amendment to qualifying income of a Beneficiary Enterprise depend on, among other things, the geographic location in Israel of the Beneficiary Enterprise. The location will also determine the period for which tax benefits are available. Such tax benefits include an exemption from corporate tax on undistributed income for a period of between two to ten years, depending on the geographic location of the Beneficiary Enterprise in Israel, and a reduced corporate tax rate of between 10% to 25% for the remainder of the benefits period, depending on the level of foreign investment in the company in each year. A company qualifying for tax benefits under the 2005 Amendment which pays a dividend out of income derived by its Beneficiary Enterprise during the tax exemption period will be subject to corporate tax in respect of the gross amount of the dividend at the otherwise applicable rate of 25%, or a lower rate in the case of a qualified FIC which is at least 49% owned by non-Israeli residents. Dividends paid out of income attributed to a Beneficiary Enterprise are generally subject to withholding tax at source at the rate of 15% or such lower rate as may be provided in an applicable tax treaty.

The benefits available to a Beneficiary Enterprise are subject to the fulfillment of conditions stipulated in the Investment Law and its regulations. If a company does not meet these conditions, it may be required to refund the amount of tax benefits, as adjusted by the Israeli consumer price index, and interest, or other monetary penalties.

In September 2011, we received a tax ruling from the Israeli Tax Authority, according to which, among other things, the Israeli Tax Authority (i) approved our status as an “Industrial Enterprise”; and (ii) determined that the expansion of our enterprise is considered as a “Beneficiary Enterprise” with 2009 as a “Year of Election,” all under the Investment Law as amended by the 2005 Amendment. The benefits available to us under this tax ruling are subject to the fulfillment of conditions stipulated in the ruling. If we do not meet these conditions, the ruling may be abolished which would result in adverse tax consequences to us.

The benefit period begins in the year in which taxable income is first earned, limited to 12 years from the “Year of Election.” We chose 2009 as a “Year of Election,” which was confirmed by the Israeli Tax Authority in its ruling described above. As of December 31, 2016 we did not utilize any of the benefits for which we were eligible under the Investment Law.

#### Tax Benefits under the 2011 Amendment

The 2011 Amendment canceled the availability of the benefits granted to companies under the Investment Law prior to 2011 and, instead, introduced new benefits for income generated by a “Preferred Company” through its “Preferred Enterprise” (as such terms are defined in the Investment Law) as of January 1, 2011. Similar to a “Beneficiary Company”, a Preferred Company is an industrial company owning a Preferred Enterprise which meets certain conditions (including a minimum threshold of 25% export). However, under this new legislation the requirement for a minimum investment in productive assets was cancelled.

Pursuant to the 2011 Amendment, a Preferred Company is entitled to a reduced corporate tax rate of 16% and 9% in 2014 and thereafter. Dividends paid out of income attributed to a Preferred Enterprise during 2014 and thereafter are generally subject to withholding tax at the rate of 20% or such lower rate as may be provided in an applicable tax treaty. However, if such dividends are paid to an Israeli company, no tax is required to be withheld (however, if afterward distributed to individuals or non-Israeli company a withholding of 20% or such lower rate as may be provided in an applicable tax treaty, will apply).

The 2011 Amendment also provided transitional provisions to address companies already enjoying existing tax benefits under the Investment Law. These transitional provisions provide, among other things, that unless an irrevocable request is made to apply the provisions of the Investment Law as amended in 2011 with respect to income to be derived as of January 1, 2011: (i) the terms and benefits included in any certificate of approval that was granted to an Approved Enterprise which chose to receive grants and certain tax benefits under the Grant Track before the 2011 Amendment became effective will remain subject to the provisions of the Investment Law as in effect on the date of such approval, and subject to certain conditions; and (ii) terms and benefits included in any certificate of approval that was granted to an Approved Enterprise under the Alternative Track before the 2011 Amendment became effective will remain subject to the provisions of the Investment Law as in effect on the date of such approval, provided that certain conditions are met; and (iii) a Beneficiary Enterprise can elect to continue to benefit from the benefits provided to it before the 2011 Amendment came into effect, provided that certain conditions are met.

Currently, we have yet to decide whether to apply the benefits of the 2011 Amendment to us. There can be no assurance that we will comply with the conditions required to remain eligible for benefits under the Investment Law in the future or that we will be entitled to any additional benefits thereunder.

#### The New Technological Enterprise Incentives Regime—Amendment 73 to the Investment Law

In December 2016, the Economic Efficiency Law (Legislative Amendments for Applying the Economic Policy for the 2017 and 2018 Budget Years), 2016 which includes Amendment 73 to the Law ("Amendment 73") was published. Starting in 2017, part of our taxable income in Israel is entitled to a preferred 6% tax rate under Amendment 73.



The new incentives regime applies to “Preferred Technological Enterprises” that meet certain conditions, including, inter alia:

1. Investment of at least 7% of income, or at least NIS 75 million (approximately \$19 million) in R&D activities; and

2. One of the following:

- At least 20% of the workforce (or at least 200 employees) are employed in R&D;
- A venture capital investment approximately equivalent to at least \$2 million was previously made in the company; or
- Growth in sales or workforce by an average of 25% over the three years preceding the tax year.

A “Special Preferred Technological Enterprise” is an enterprise that meets, inter alia conditions 1 and 2 above, and in addition has total annual consolidated revenues above NIS 10 billion (approximately \$2.5 billion).

Preferred Technological Enterprises are subject to a corporate tax rate of 7.5% on their income derived from intellectual property in areas in Israel designated as zone A and 12% elsewhere, while Special Preferred Technological Enterprises are subject to 6% on such income. The withholding tax on dividends from these enterprises is 4% to foreign companies (or a lower rate under a tax treaty, if applicable).

Income not eligible for Preferred Enterprise benefits is taxed at the regular corporate tax rate, which was 24% in 2017. Starting January 2018, the regular corporate tax rate in Israel was reduced to 23%.

#### Tax Benefits for Research and Development

Under Israeli tax law, expenditures, including capital expenditures, relating to scientific research and development projects carried out by or on behalf of the company for its progression, and have been approved by the relevant Israeli Government ministry governing the applicable field of research, can be tax deducted in the year incurred, subject to certain conditions. Expenditures which have not been approved, are deductible over a three-year period. Funds received through government grants for the finance of such scientific research and development projects, shall be reduced from any deductible expenses.

#### Special Provisions Relating to Taxation under Inflationary Conditions

Commencing in taxable year 2014, the Company has elected to measure its taxable income and file its tax return under the Israeli Income Tax Regulations (Principles Regarding the Management of Books of Account of Foreign Invested Companies and Certain Partnerships and the Determination of Their Taxable Income), 1986. Such an elective obligates the Company for three years. Accordingly, commencing taxable year 2014, results for tax purposes are measured in terms of earnings in dollar.

#### Excess Tax

Individuals who are subject to tax in Israel (whether any such individual is an Israeli resident or non-Israeli resident) are also subject to an additional tax at the rate of 3% on annual income exceeding NIS 640,000, which amount is linked to the annual change in the Israeli consumer price index, including, but not limited to, dividends, interest and capital gain.

## Taxation of our Shareholders

### Capital Gains Taxes Applicable to Non-Israeli Resident Shareholders

A non-Israeli resident who derives capital gains from the sale of shares in an Israeli resident company that were purchased after the company was listed for trading on a stock exchange outside of Israel will be exempt from Israeli tax so long as the shares were not held through a permanent establishment that the non-resident maintains in Israel. However, non-Israeli corporations will not be entitled to the foregoing exemption if Israeli residents: (i) have a controlling interest of 25% or more in such non-Israeli corporation or (ii) are the beneficiaries of, or are entitled to, 25% or more of the revenues or profits of such non-Israeli corporation, whether directly or indirectly.

Additionally, a sale of securities by a non-Israeli resident may be exempt from Israeli capital gains tax under the provisions of an applicable tax treaty. For example, under Convention Between the Government of the United States of America and the Government of the State of Israel with respect to Taxes on Income, as amended, or the United States-Israel Tax Treaty, the sale, exchange or other disposition of shares by a shareholder who is a United States resident (for purposes of the treaty) holding the shares as a capital asset and is entitled to claim the benefits afforded to such a resident by the U.S.-Israel Tax Treaty, or a Treaty U.S. Resident, is generally exempt from Israeli capital gains tax unless: (i) the capital gain arising from such sale, exchange or disposition is attributed to real estate located in Israel; (ii) the capital gain arising from such sale, exchange or disposition is attributed to royalties; (iii) the capital gain arising from the such sale, exchange or disposition is attributed to a permanent establishment in Israel, under certain terms; (iv) such Treaty U.S. Resident holds, directly or indirectly, shares representing 10% or more of the voting capital during any part of the 12-month period preceding the disposition, subject to certain conditions; or (v) such Treaty U.S. Resident is an individual and was present in Israel for 183 days or more during the relevant taxable year.

In some instances where our shareholders may be liable for Israeli tax on the sale of their ordinary shares, the payment of the consideration may be subject to the withholding of Israeli tax at source. Shareholders may be required to demonstrate that they are exempt from tax on their capital gains in order to avoid withholding at source at the time of sale.

### Taxation of Non-Israeli Shareholders on Receipt of Dividends

Non-Israeli residents are generally subject to Israeli income tax on the receipt of dividends paid on our ordinary shares at the rate of 25%, which tax will be withheld at source, unless relief is provided in a treaty between Israel and the shareholder's country of residence. With respect to a person who is a "substantial shareholder" at the time of receiving the dividend or on any time during the preceding twelve months, the applicable tax rate is 30%. A "substantial shareholder" is generally a person who alone or together with such person's relative or another person who collaborates with such person on a permanent basis, holds, directly or indirectly, at least 10% of any of the "means of control" of the corporation. "Means of control" generally include the right to vote, receive profits, nominate a director or an executive officer, receive assets upon liquidation, or order someone who holds any of the aforesaid rights how to act, regardless of the source of such right. However, a distribution of dividends to non-Israeli residents is subject to withholding tax at source at a rate of 15% if the dividend is distributed from income attributed to an Approved Enterprise or a Benefited Enterprise and 20% if the dividend is distributed from income attributed to a Preferred Enterprise, unless a reduced tax rate is provided under an applicable tax treaty. For example, under the United States-Israel Tax Treaty, the maximum rate of tax withheld at source in Israel on dividends paid to a holder of our ordinary shares who is a Treaty U.S. Resident is 25%. However, generally, the maximum rate of withholding tax on dividends, not generated by a Preferred Enterprise or Beneficiary Enterprise, that are paid to a United States corporation holding 10% or more of the outstanding voting capital throughout the tax year in which the dividend is distributed as well as during the previous tax year, is 12.5%, provided that not more than 25% of the gross income for such preceding year consists of certain types of dividends and interest. Notwithstanding the foregoing, dividends distributed from income attributed to an Approved Enterprise, Beneficiary Enterprise or Preferred Enterprise are not entitled to such reduction under the tax treaty but are subject to a withholding tax rate of 15% for a shareholder that is a U.S. corporation, provided that



the condition related to our gross income for the previous year (as set forth in the previous sentence) is met. If the dividend is attributable partly to income derived from an Approved Enterprise, Benefited Enterprise or Preferred Enterprise, and partly to other sources of income, the withholding rate will be a blended rate reflecting the relative portions of the two types of income. We cannot assure you that we will designate the profits that we may distribute in a way that will reduce shareholders' tax liability.

## United States Federal Income Taxation

The following is a description of the material United States federal income tax consequences of the acquisition, ownership and disposition of our ordinary shares by a holder that will hold the ordinary shares as capital assets. This description does not address tax considerations applicable to holders that may be subject to special tax rules, including, without limitation:

- banks, financial institutions or insurance companies;
- real estate investment trusts, regulated investment companies or grantor trusts;
- dealers or traders in securities, commodities or currencies;
- tax-exempt entities or organizations, including an “individual retirement account” or “Roth IRA” as defined in Section 408 or 408A of the Code, respectively;
- certain former citizens or long-term residents of the United States;
- persons that received our shares as compensation for the performance of services;
- persons that will hold our shares as part of a “hedging,” “integrated” or “conversion” transaction or as a position in a “straddle” for United States federal income tax purposes;
- partnerships (including entities classified as partnerships for United States federal income tax purposes) or other pass-through entities, or holders that will hold our shares through such an entity;
- S corporations;
- persons subject to special tax accounting rules as a result of any item of gross income with respect to the ordinary shares being taken into account in an “applicable financial statement” (as defined in the Code);
- holders that acquire ordinary shares as a result of holding or owning our preferred shares;
- U.S. Holders (as defined below) whose “functional currency” is not the U.S. Dollar; or
- holders that own directly, indirectly or through attribution 10.0% or more of the voting power or value of our shares.

Moreover, this description does not address the United States federal estate, gift or alternative minimum tax consequences, or any state, local or foreign tax consequences, of the acquisition, ownership and disposition of our ordinary shares.

This description is based on the Code, existing, proposed and temporary United States Treasury Regulations and judicial and administrative interpretations thereof, in each case as in effect and available on the date hereof. All of the foregoing is subject to change, which change could apply retroactively and could affect the tax consequences described below. There can be no assurances that the U.S. Internal Revenue Service, or the IRS, will not take a different position concerning the tax consequences of the acquisition, ownership and disposition of our ordinary shares or that such a position would not be sustained. Holders should consult their tax advisors concerning the U.S. federal, state, local and foreign tax consequences of purchasing, owning and disposing of our ordinary shares in their particular circumstances.

For purposes of this description, a “U.S. Holder” is a beneficial owner of our ordinary shares that, for United States federal income tax purposes, is:

- a citizen or resident of the United States;
- a corporation (or other entity treated as a corporation for United States federal income tax purposes) created or organized in or under the laws of the United States or any state thereof, including the District of Columbia;
- an estate the income of which is subject to United States federal income taxation regardless of its source; or
- a trust if such trust has validly elected to be treated as a United States person for United States federal income tax purposes or if (1) a court within the United States is able to exercise primary supervision over its administration and (2) one or more United States persons have the authority to control all of the substantial decisions of such trust.

A “Non-U.S. Holder” is a beneficial owner of our ordinary shares that is neither a U.S. Holder nor a partnership (or other entity treated as a partnership for United States federal income tax purposes).

If a partnership (or any other entity treated as a partnership for United States federal income tax purposes) holds our ordinary shares, the tax treatment of a partner in such partnership will generally depend on the status of the partner and the activities of the partnership. Such a partner or partnership should consult its tax advisor as to the particular United States federal income tax consequences of acquiring, owning and disposing of our ordinary shares in its particular circumstance.

Unless otherwise indicated, this discussion assumes that the Company is not, and will not become, a “passive foreign investment company,” or a PFIC, for U.S. federal income tax purposes. See “—Passive Foreign Investment Company Considerations” below.

This summary does not contain a detailed description of all the U.S. federal income tax consequences to you in light of your particular circumstances. You should consult your tax advisor with respect to the United States federal, state, local and foreign tax consequences of acquiring, owning and disposing of our ordinary shares.

#### Distributions

If you are a U.S. Holder, the gross amount of any distribution made to you with respect to our ordinary shares before reduction for any Israeli taxes withheld therefrom, other than certain distributions, if any, of our ordinary shares distributed pro rata to all our shareholders, generally will be includible in your income as dividend income to the extent such distribution is paid out of our current or accumulated earnings and profits as determined under United States federal income tax principles. We do not expect to maintain calculations of our earnings and profits under United States federal income tax principles. Therefore, if you are a U.S. Holder you should expect that the entire amount of any distribution generally will be reported as dividend income to you. Non-corporate U.S. Holders may qualify for the lower rates of taxation with respect to dividends on ordinary shares applicable to long-term capital gains (i.e., gains from the sale of capital assets held for more than one year), provided that certain conditions are met,

including certain holding period requirements and the absence of certain risk reduction transactions. However, such dividends will not be eligible for the dividends received deduction generally allowed to corporate U.S. Holders. To the extent that the amount of any distribution by us exceeds our current and accumulated earnings and profits as determined under United States federal income tax principles, it will be treated first as a tax-free return of your adjusted tax basis in our ordinary shares and thereafter as either long-term or short-term capital gain depending upon whether the U.S. Holder has held our ordinary shares for more than one year as of the time such distribution is received.

If you are a U.S. Holder, dividends paid to you with respect to our ordinary shares will be treated as foreign source income, which may be relevant in calculating your foreign tax credit limitation. Subject to certain conditions and limitations, Israeli tax withheld on dividends may be deducted from your taxable income or credited against your United States federal income tax liability. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, dividends that we distribute generally should constitute “passive category income”. A foreign tax credit for foreign taxes imposed on distributions may be denied if you do not satisfy certain minimum holding period requirements. The rules relating to the determination of the foreign tax credit are complex, and you should consult your tax advisor to determine whether and to what extent you will be entitled to this credit.

If you are a U.S. Holder, dividends paid in NIS will be included in income in a U.S. dollar amount calculated by reference to the prevailing spot market exchange rate in effect on the day the dividends are received by you, regardless of whether the NIS are converted into U.S. dollars at that time. Any foreign currency gain or loss a U.S. Holder realizes on a subsequent conversion of NIS into U.S. dollars will be U.S. source ordinary income or loss. If dividends received in NIS are converted into U.S. dollars on the day they are received, a U.S. Holder generally should not be required to recognize foreign currency gain or loss in respect of the dividend income.

Subject to the discussion below under “—Backup Withholding Tax and Information Reporting Requirements,” if you are a Non-U.S. Holder, you generally will not be subject to United States federal income (or withholding) tax on dividends received by you on your ordinary shares, unless you conduct a trade or business in the United States and such income is effectively connected with that trade or business (or, if required by an applicable income tax treaty, the dividends are attributable to a permanent establishment or fixed base that such holder maintains in the United States).

#### Sale, Exchange or Other Disposition of Ordinary Shares

If you are a U.S. Holder, you generally will recognize gain or loss on the sale, exchange or other disposition of our ordinary shares equal to the difference between the amount realized on such sale, exchange or other disposition and your adjusted tax basis in our ordinary shares, and such gain or loss will be capital gain or loss. The adjusted tax basis in an ordinary share generally will be equal to the cost of such ordinary share. Except as discussed below with respect to foreign currency gain or loss, if you are a non-corporate U.S. Holder, capital gain from the sale, exchange or other disposition of ordinary shares is generally eligible for a preferential rate of taxation applicable to capital gains, if your holding period for such ordinary shares exceeds one year (i.e., such gain is long-term capital gain). The deductibility of capital losses for United States federal income tax purposes is subject to limitations under the Code. Any such gain or loss that a U.S. Holder recognizes generally will be treated as U.S. source income or loss for foreign tax credit limitation purposes.

For a cash basis taxpayer, units of foreign currency paid or received are translated into U.S. dollars at the spot rate on the settlement date of the purchase or sale if our ordinary shares are treated as traded on an established securities market. In that case, no foreign currency exchange gain or loss will result from currency fluctuations between the trade date and the settlement date of such a purchase or sale. An accrual basis taxpayer, however, may elect the same treatment required of cash basis taxpayers with respect to purchases and sales of our ordinary shares that are traded on an established securities market, provided the election is applied consistently from year to year. Such election may not be changed without the consent of the IRS. An accrual basis taxpayer who does not make such election may recognize exchange gain or loss based on currency fluctuations between the trade date and the settlement date. Any foreign currency gain or loss a U.S. Holder realizes will be U.S. source ordinary income or loss.

The determination of whether our ordinary shares are traded on an established securities market is not entirely clear under current U.S. federal income tax law. Please consult your tax advisor regarding the proper treatment of foreign currency gains or losses with respect to a sale or other disposition of our ordinary shares.

Subject to the discussion below under “—Backup Withholding Tax and Information Reporting Requirements,” if you are a Non-U.S. Holder, you generally will not be subject to United States federal income or withholding tax on any gain realized on the sale or exchange of such ordinary shares unless:

such gain is effectively connected with your conduct of a trade or business in the United States (or, if required by an applicable income tax treaty, the gain is attributable to a permanent establishment or fixed base that such holder maintains in the United States); or

you are an individual and have been present in the United States for 183 days or more in the taxable year of such sale or exchange and certain other conditions are met.

#### Passive Foreign Investment Company Considerations

If we were to be classified as a “passive foreign investment company,” or PFIC, in any taxable year, a U.S. Holder would be subject to special rules generally intended to reduce or eliminate any benefits from the deferral of U.S. federal income tax that a U.S. Holder could derive from investing in a non-U.S. company that does not distribute all of its earnings on a current basis.

A non-U.S. corporation will be classified as a PFIC for federal income tax purposes in any taxable year in which, after applying certain look-through rules with respect to the income and assets of subsidiaries, either:

at least 75% of its gross income is “passive income”; or

at least 50% of the average quarterly value of its total gross assets (which may be determined in part by the market value of our ordinary shares, which is subject to change) is attributable to assets that produce “passive income” or are held for the production of passive income.

Passive income for this purpose generally includes dividends, interest, royalties, rents, gains from commodities and securities transactions, the excess of gains over losses from the disposition of assets which produce passive income, and includes amounts derived by reason of the temporary investment of funds raised in offerings of our ordinary shares. If a non-U.S. corporation owns at least 25% by value of the stock of another corporation, the non-U.S. corporation is treated for purposes of the PFIC tests as owning its proportionate share of the assets of the other corporation and as receiving directly its proportionate share of the other corporation’s income. If we are classified as a PFIC in any year with respect to which a U.S. Holder owns our ordinary shares, we will continue to be treated as a PFIC with respect to such U.S. Holder in all succeeding years during which the U.S. Holder owns our ordinary shares, regardless of whether we continue to meet the tests described above. However, if we cease to be a PFIC, you can avoid the continuing impact of the PFIC rules by making a special election to recognize gain as if your ordinary shares

had been sold on the last day of the last taxable year during which we were a PFIC.

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Based on the composition of our income and the composition and estimated fair market value of our assets, we do not believe we were classified as a PFIC for the taxable year ending December 31, 2017. However, because PFIC status is determined as of the end of the taxable year and depends on a number of factors, including the value of a corporation's assets and the amount and type of its gross income, it is not possible to determine whether we will be characterized as a PFIC for the 2018 taxable year until after the close of the year. Moreover, we must determine our PFIC status annually based on tests which are factual in nature, and our status in future years will depend on our income, assets and activities in those years. There can be no assurance that we will not be considered a PFIC for any taxable year. Furthermore, because the value of our gross assets is likely to be determined in large part by reference to our market capitalization (assuming we are treated as publicly traded for purposes of the PFIC rules), a decline in the value of our ordinary shares may result in our becoming a PFIC. If we were a PFIC, and you are a U.S. Holder, then unless you make one of the elections described below, a special tax regime will apply to both (a) any "excess distribution" by us to you (generally, your ratable portion of distributions in any year which are greater than 125% of the average annual distribution received by you in the shorter of the three preceding years or your holding period for our ordinary shares) and (b) any gain realized on the sale or other disposition of the ordinary shares. Under this regime, any excess distribution and realized gain will be treated as ordinary income and will be subject to tax as if (a) the excess distribution or gain had been realized ratably over your holding period, (b) the amount deemed realized in each year had been subject to tax in each year of that holding period at the highest marginal rate for such year (other than income allocated to the current period or any taxable period before we became a PFIC, which would be subject to tax at the U.S. Holder's regular ordinary income rate for the current year and would not be subject to the interest change discussed below), and (c) the interest charge generally applicable to underpayments of tax had been imposed on the taxes deemed to have been payable in those years. In addition, dividend distributions made to you will not qualify for the lower rates of taxation applicable to long-term capital gains discussed above under "Distributions." Certain elections may be available that would result in an alternative treatment (such as mark-to-market treatment) of our ordinary shares.

If a U.S. Holder makes the mark-to-market election, the U.S. Holder generally will recognize as ordinary income any excess of the fair market value of the ordinary shares at the end of each taxable year over their adjusted tax basis, and will recognize an ordinary loss in respect of any excess of the adjusted tax basis of the ordinary shares over their fair market value at the end of the taxable year (but only to the extent of the net amount of income previously included as a result of the mark-to-market election). If a U.S. Holder makes the election, the U.S. Holder's adjusted tax basis in the ordinary shares will be adjusted to reflect these income or loss amounts. Any gain recognized on the sale or other disposition of ordinary shares in a year when we are a PFIC will be treated as ordinary income and any loss will be treated as an ordinary loss (but only to the extent of the net amount of income previously included as a result of the mark-to-market election). The mark-to-market election is available only if we are a PFIC and our ordinary shares are "regularly traded" on a "qualified exchange." Our ordinary shares will be treated as "regularly traded" in any calendar year in which more than a de minimis quantity of the ordinary shares, are traded on a qualified exchange on at least 15 days during each calendar quarter. There can be no assurance that the ordinary shares will be "regularly traded" for purposes of the mark-to-market election. NASDAQ is a qualified exchange for this purpose and, consequently, if the ordinary shares are regularly traded, the mark-to-market election will be available to a U.S. Holder.



We do not intend to provide the information necessary for U.S. Holders to make qualified electing fund elections if we are classified as a PFIC. U.S. Holders should consult their tax advisors to determine whether any of these elections would be available and if so, what the consequences of the alternative treatments would be in their particular circumstances.

If we are determined to be a PFIC, the general tax treatment for U.S. Holders described in this section would apply to indirect distributions and gains deemed to be realized by U.S. Holders in respect of any of our subsidiaries that also may be determined to be PFICs.

If a U.S. Holder owns ordinary shares during any year in which we are a PFIC, the U.S. Holder generally will be required to file an IRS Form 8621 (Information Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund) or successor form with respect to the Company, generally with the U.S. Holder's federal income tax return for that year. If the company was a PFIC for a given taxable year, then you should consult your tax advisor concerning your annual filing requirements.

U.S. Holders should consult their tax advisors regarding whether we are a PFIC and the potential application of the PFIC rules.

#### Medicare Tax

Certain U.S. Holders that are individuals, estates or trusts are subject to a 3.8% tax on all or a portion of their "net investment income," which may include all or a portion of their dividend income and net gains from the disposition of ordinary shares. Each U.S. Holder that is an individual, estate or trust is urged to consult its tax advisors regarding the applicability of the Medicare tax to its income and gains in respect of its investment in our ordinary shares.

#### Backup Withholding Tax and Information Reporting Requirements

United States backup withholding tax and information reporting requirements may apply to certain payments to certain holders of stock. Information reporting generally will apply to payments of dividends on, and to proceeds from the sale or redemption of, our ordinary shares made within the United States, or by a United States payor or United States middleman, to a holder of our ordinary shares, other than an exempt recipient (including a payee that is not a United States person that provides an appropriate certification and certain other persons). A payor will be required to withhold backup withholding tax from any payments of dividends on, or the proceeds from the sale or redemption of, ordinary shares within the United States, or by a United States payor or United States middleman, to a holder, other than an exempt recipient, if such holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with, or establish an exemption from, such backup withholding tax requirements. Any amounts withheld under the backup withholding rules will be allowed as a credit against the beneficial owner's United States federal income tax liability, if any, and any excess amounts withheld under the backup withholding rules may be refunded, provided that the required information is timely furnished to the IRS.

#### Foreign Asset Reporting

Certain U.S. Holders who are individuals are required to report information relating to an interest in our ordinary shares, subject to certain exceptions (including an exception for shares held in accounts maintained by financial institutions) by filing IRS Form 8938 (Statement of Specified Foreign Financial Assets) with their federal income tax return. U.S. Holders are urged to consult their tax advisors regarding their information reporting obligations, if any, with respect to their ownership and disposition of our ordinary shares.

#### F. Dividends and Paying Agents

Not applicable.



G. Statement by Experts

Not applicable.

H. Documents on Display

We are currently subject to the informational requirements of the Exchange Act applicable to foreign private issuers and fulfill the obligations of these requirements by filing reports with the SEC. As a foreign private issuer, we are exempt from the rules under the Exchange Act relating to the furnishing and content of proxy statements, and our officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required under the Exchange Act to file periodic reports and financial statements with the SEC as frequently or as promptly as U.S. companies whose securities are registered under the Exchange Act. However, we are required to file with the SEC, within 120 days after the end of each subsequent fiscal year, an annual report on Form 20-F containing financial statements which will be examined and reported on, with an opinion expressed, by an independent public accounting firm. We also file with the SEC reports on Form 6-K containing quarterly unaudited financial information.

You may read and copy any document we file with the SEC without charge at the SEC's public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. You may also obtain copies of the documents at prescribed rates by writing to the Public Reference Section of the SEC at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC also maintains an Internet website that contains reports and other information regarding issuers that file electronically with the SEC. Our filings with the SEC are also available to the public through the SEC's website at <http://www.sec.gov>.

I. Subsidiary Information

Not applicable.

Item 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to a variety of risks, including foreign currency exchange fluctuations, changes in interest rates and inflation. We regularly assess currency, interest rate and inflation risks to minimize any adverse effects on our business as a result of those factors.

Foreign Currency Risk

Our results of operations and cash flows are affected by fluctuations due to changes in foreign currency exchange rates. In 2017, approximately 70% of our revenues were denominated in U.S. dollars and approximately 30% in other currencies, primarily in Euros, British Pounds and Brazilian Reals. In addition, in 2017, approximately 63% of our cost of revenues and operating expenses were denominated in U.S. dollars and approximately 33% in New Israeli Shekels. Our NIS-denominated expenses consist primarily of personnel and overhead costs. Since a significant portion of our expenses are denominated in NIS, any appreciation of the NIS relative to the U.S. dollar would adversely impact our net loss or net income (if any).

Our primary processing provider converts payments collected from our premium users in British pound- and euro-denominated payments to us into U.S. dollars in consideration for the payment of an additional fee; however, since the original payment are not received in dollars this does not overall reduce our exposure to exchange rate fluctuations between these currencies and the U.S. dollar.

The following table presents information about the changes in the exchange rates of the NIS against the U.S. dollar:

Period	Change in Average Exchange Rate of the NIS Against the U.S. dollar (%)
2017	(6.3 )
2016	(1.1 )
2015	8.6
2014	(0.9 )
2013	(6.4 )

The figures above represent the change in the average exchange rate in the given period compared to the average exchange rate in the immediately preceding period. Negative figures represent depreciation of the U.S. dollar compared to the NIS.

A 10% increase (decrease) in the value of the NIS against the U.S. dollar would have decreased (increased) our net loss by approximately \$15.7 million in 2017.

To protect against the increase in value of forecasted foreign currency cash flow resulting from expenses paid in NIS during the year, we have instituted a foreign currency cash flow hedging program.

We hedge limited portions of the anticipated payroll of our Israeli employees, Israeli suppliers and anticipated rent expenses of our Israeli premises denominated in NIS for a period of one to twelve months with forward contracts and other derivative instruments. In addition, we hedge a portion of our revenue transactions denominated in euros and British pounds. See Note 2(m) to our consolidated financial statements included elsewhere in this annual report.

Our results of operations may also be impacted by currency translation gains and losses on monetary assets and liabilities, primarily cash and cash equivalents and restricted deposits denominated in currencies other than the U.S. dollar. Any such gains or losses only impact the dollar value of our non-dollar denominated cash and cash equivalents and restricted deposits and result from changes in reported values due to exchange rate fluctuations between the beginning and the end of reporting periods. As of December 31, 2017, we had \$197 million of cash and cash equivalents, restricted deposits and marketable securities denominated in U.S. dollars and \$37 million denominated in other currencies, primarily NIS, Euro, British Pounds, Japanese Yen and the Brazilian Real

#### Other Market Risks

We do not believe that we have material exposure to interest rate risk due to the fact that we have no long-term borrowings.

We do not believe that we have any material exposure to inflationary risks.

#### Item 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.



## PART II

### Item 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

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

#### Initial Public Offering

The effective date of the registration statement (File no. 333- 191508) for our IPO of ordinary shares, par value NIS 0.01, was November 5, 2013. The offering commenced on October 23, 2013 and was closed on November 12, 2013. J.P. Morgan Securities LLC, Merrill Lynch, Pierce, Fenner and Smith Incorporated and RBC Capital Markets, LLC were joint bookrunning managers for the offering, and Needham & Company, LLC and Oppenheimer & Co. Inc. were co-managers for the offering.

As a result, we issued and sold a total of 6,325,786 ordinary shares at a price per share of \$16.50, resulting in net proceeds to us of approximately \$93.6 million.

From the effective date of the registration statement and until December 31, 2017, we have used existing cash and the net proceeds of the IPO for working capital and other general corporate purposes. We may also use all or a portion of the net proceeds to hire additional personnel for our research and development and support and call center functions, and to increase our selling and marketing expenses focused on user acquisition. We may also use a portion of the net proceeds to make acquisitions or investments in complementary companies or technologies, although we do not have any agreement or understanding with respect to any such acquisition or investment at this time.

None of the net proceeds of the offering was paid directly or indirectly to any director, officer, general partner of ours or to their associates, persons owning ten percent or more of any class of our equity securities, or to any of our affiliates.

### Item 15. CONTROLS AND PROCEDURES

#### Disclosure controls and procedures

Our management, including our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of December 31, 2017. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2017, our disclosure controls and procedures were effective such that the information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

#### Management's annual report on internal control over financial reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is a process designed by, or under the supervision of, our principal executive and principal financial officers, or persons performing similar functions, and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and

procedures that:

pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;

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provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and

provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our internal control over financial reporting as of December 31, 2017. In making this assessment, our management used the criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Our management has concluded, based on its assessment, that our internal control over financial reporting was effective as of December 31, 2017 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external reporting purposes in accordance with generally accepted accounting principles.

#### Attestation report of the registered public accounting firm

Our independent registered public accounting firm, Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global, has audited the consolidated financial statements included in this annual report on Form 20-F, and as part of its audit, has issued its audit report on the effectiveness of our internal control over financial reporting as of December 31, 2017. The report of Kost Forer Gabbay & Kasierer is included with our consolidated financial statements included elsewhere in this annual report and is incorporated herein by reference.

#### Changes in internal control over financial reporting

There were no changes in our internal control over financial reporting that occurred during the period covered by this annual report that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

Item 16. [Reserved]

#### Item 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has determined that Ron Gutler qualifies as an audit committee financial expert, as defined by the rules of the SEC and has the requisite financial experience defined by the NASDAQ Marketplace Rules. In addition, Mr. Gutler is independent as such term is defined in Rule 10A-3(b)(1) under the Exchange Act and under the listing standards of the NASDAQ Global Market.

#### Item 16B. CODE OF ETHICS

We have adopted a code of ethics and proper business conduct applicable to its executive officers, directors and all other employees. A copy of the code is delivered to every employee of Wix.com Ltd. and all of its subsidiaries, and is available to investors and others on our website at <http://investors.wix.com> or by contacting our investor relations department. Any amendments or waivers of this code for executive officers or directors will be disclosed within five business days following the date of such amendment or waiver through the filing of a Form 6-K or on our website. We have also implemented a training program for new and existing employees concerning the code of ethics and proper business conduct. We granted no waivers under our code of ethics in 2017.



## Item 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

## Principal Accountant Fees and Services

We paid the following fees for professional services rendered by Ernst & Young, an independent registered public accounting firm, for the years ended December 31, 2017 and 2016:

	2016	2017
	(in USD thousands)	
Audit Fees	426	755
Audit-Related Fees	30	191
Tax Fees	74	81
Total	530	1,027

“Audit fees” are the aggregate fees paid for the audit of our annual financial statements. This category also includes services that generally the independent accountant provides, such as consents and assistance with and review of documents filed with the SEC.

“Audit-related fees” are the aggregate fees paid for assurance and related services that are reasonably related to the performance of the audit and are not reported under audit fees. These fees primarily include accounting consultations regarding the accounting treatment of matters that occur in the regular course of business, implications of new accounting pronouncements and other accounting issues that occur from time to time.

Our audit committee has adopted a pre-approval policy for the engagement of our independent accountant to perform certain audit and non-audit services. Pursuant to this policy, which is designed to assure that such engagements do not impair the independence of our auditors, the audit committee pre-approves annually a catalog of specific audit and non-audit services in the categories of audit service, audit-related service and tax services that may be performed by our independent accountants.

## Item 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

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

On March 26, 2018, our Board of Directors approved the filing of a motion seeking court approval in Israel to authorize the company to repurchase up to \$80 million of our ordinary shares from time to time in accordance with Israeli law, over a term commencing upon and subject to the court’s approval of the motion and ending on December 31, 2018.

Israeli law requires a company like us, which does not have sufficient “profits” as determined for purposes of Section 301 of the Companies Law, to apply to the courts for approval to repurchase its shares following board determination that such repurchase of shares will not prevent the company from satisfying its existing and foreseeable obligations as they become due. We intend to file such motion with the Israeli court following the filing of this Annual Report on Form 20-F.

Notwithstanding the receipt of court approval, if and when obtained, the Israeli court approval provides the company with the right to repurchase its shares, but does not require the company to acquire any or a specific number of ordinary shares. Our Board of Directors has the authority to determine if and when to implement any share repurchase program, including without limitation the number of shares to repurchase, if any, and the timing of such repurchases.

Share repurchases may take place in open market transactions or in privately negotiated transactions and may be made from time to time depending on market conditions, share price, trading volume and other factors our Board of Directors deems appropriate. Our Board of Directors may also, if it implements a share repurchase, suspend and/or discontinue the program at any time, in its sole discretion. All share repurchases will be made in accordance with all applicable securities laws and regulations.

We will update the shareholders if and when court approval is obtained and if and when our Board of Directors elects to implement a share repurchase program.

Item 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

Not applicable.

Item 16G. CORPORATE GOVERNANCE

As a foreign private issuer, we are permitted to comply with Israeli corporate governance practices instead of the NASDAQ Stock Market requirements, provided that we disclose those NASDAQ Stock Market requirements with which we do not comply and the equivalent Israeli requirement that we follow instead. We currently rely on this "foreign private issuer exemption" as follows:

**Quorum Requirements.** As permitted under the Companies Law, pursuant to our articles of association, the quorum required for an ordinary meeting of shareholders consists of at least two shareholders present in person, by proxy or, for certain types of shareholders' resolutions, by written ballot, who hold or represent between them at least 25% of the voting power of our shares, instead of 33<sup>1</sup>/<sub>3</sub>% of the issued share capital provided under the NASDAQ Listing Rule 5260(c).

**Distribution of Annual and Interim Reports.** Unlike NASDAQ Listing Rule 5250(d), which requires listed issuers to make annual and quarterly reports available to shareholders in one of a number of specific manners, Israeli law does not require us to distribute such reports directly to shareholders, and the generally accepted business practice in Israel is not to distribute such reports to shareholders but to make such reports available through a public website. In addition, we will make our annual report containing audited financial statements available to our shareholders at our offices (in addition to a public website).

Item 16H. MINE SAFETY DISCLOSURE

Not applicable.

PART III

Item 17. FINANCIAL STATEMENTS

Not applicable.

Item 18. FINANCIAL STATEMENTS

See pages F-2 through F-53 of this annual report.

Item 19. EXHIBITS

See exhibit index incorporated herein by reference.

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## ANNUAL REPORT ON FORM 20-F

## INDEX OF EXHIBITS

Exhibit No.	Description
<u>1.1</u>	<u>Articles of Association of the Registrant (incorporated herein by reference to Exhibit 1.1 to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2016, filed on March 28, 2017)</u>
<u>4.1</u>	<u>Amended and Restated Shareholders Agreement dated October 22, 2013, by and among the Registrant and the other parties thereto (incorporated by reference to Exhibit 10.1 to the Registrant's Registration Statement on Form F-1, as amended (Registration No. 333-191508))</u>
<u>4.2</u>	<u>Form of Indemnification Agreement (incorporated by reference to Exhibit 99.1 to the Registrant's Form 6-K for August 2015, filed on August 17, 2015)</u>
<u>4.3</u>	<u>Wixpress Ltd. 2007 Employee Share Option Plan (incorporated by reference to Exhibit 10.3 to the Registrant's Registration Statement on Form F-1, as amended (Registration No. 333-191508))</u>
<u>4.4</u>	<u>Wix.com Ltd. 2013 Incentive Compensation Plan (incorporated by reference to Exhibit 10.4 to the Registrant's Registration Statement on Form F-1, as amended (Registration No. 333-191508))</u>
<u>4.5</u>	<u>Wix.com Ltd. 2013 Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.7 to the Registrant's Registration Statement on Form F-1, as amended (Registration No. 333-191508)).</u>
<u>4.6</u>	<u>Wix.com Ltd.'s Compensation Policy - Executives (incorporated herein by reference to Exhibit 99.1 to the Registrant's Form 6-K for May 2017, filed on May 25, 2017).</u>
<u>4.7</u>	<u>Wix.com Ltd.'s Compensation Policy - Directors (incorporated herein by reference to Exhibit 99.1 to the Registrant's Form 6-K for May 2017, filed on May 25, 2017).</u>
<u>8.1</u>	<u>List of subsidiaries of the Registrant</u>
<u>12.1</u>	<u>Certificate of Chief Executive Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as adopted pursuant to §302 of the Sarbanes-Oxley Act of 2002</u>
<u>12.2</u>	<u>Certificate of Chief Financial Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as adopted pursuant to §302 of the Sarbanes-Oxley Act of 2002</u>
<u>13.1</u>	<u>Certificate of Chief Executive Officer pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, furnished herewith</u>
<u>13.2</u>	<u>Certificate of Chief Financial Officer pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, furnished herewith</u>
<u>15.1</u>	<u>Consent of Kost, Forer, Gabbay and Kasierer, a member of Ernst &amp; Young Global, an independent registered public accounting firm</u>
101.INS	XBRL Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document



SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Wix.com Ltd.

By: /s/ AVISHAI ABRAHAMI

Date: March 29, 2018

Avishai Abrahami  
Co-Founder, Chief Executive Officer  
and Director

WIX.COM LTD.

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2017

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

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of

WIX.COM LTD.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Wix.com Ltd. (the "Company") as of December 31, 2017 and 2016, and the related consolidated statements of comprehensive loss, changes in shareholders' equity (deficiency) and cash flows for each of the three years in the period ended December 31, 2017 and the related notes (collectively referred to as the "financial statements").

In our opinion, the financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2017 and 2016, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 29, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

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

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

We have served as the Company's auditor since 2007.

/s/ Kost Forer Gabbay & Kasierer



Tel-Aviv, Israel KOST FORER GABBAY & KASIERER  
March 29, 2018 A Member of Ernst & Young Global

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Kost Forer Gabbay & Kasierer Tel: +972-3-6232525  
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## Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of

WIX.COM LTD.

### Opinion on Internal Control over Financial Reporting

We have audited Wix.com Ltd. (the Company) internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2017 and 2016, the related consolidated statements of comprehensive loss, changes in shareholders' equity (deficiency) and cash flows for each of the three years in the period ended December 31, 2017 and the related notes, and our report dated March 29, 2018 expressed an unqualified opinion thereon.

### Basis for Opinion

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

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

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

### Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance

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

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

/s/ Kost Forer Gabbay & Kasierer

Tel-Aviv, Israel KOST FORER GABBAY & KASIERER  
March 29, 2018 A Member of Ernst & Young Global

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WIX.COM LTD.

## CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	December 31,	
	2016	2017
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$93,064	\$85,230
Short-term deposits	55,498	115,382
Restricted deposit	931	949
Marketable securities	22,742	32,730
Trade receivables	8,279	11,400
Prepaid expenses and other current assets	17,346	19,246
<u>Total</u> current assets	197,860	264,937
<b>LONG-TERM ASSETS:</b>		
Prepaid expenses and other long-term assets	2,622	3,823
Property and equipment, net	8,750	16,201
Intangible assets, net	3,716	27,252
Goodwill	1,736	17,800
<u>Total</u> long-term assets	16,824	65,076
<b>TOTAL ASSETS</b>	<b>\$214,684</b>	<b>\$330,013</b>

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

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WIX.COM LTD.

## CONSOLIDATED BALANCE SHEETS

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

	December 31,	
	2016	2017
<b>LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)</b>		
<b>CURRENT LIABILITIES:</b>		
Trade payables	\$20,709	\$34,240
Employees and payroll accruals	20,230	28,067
Deferred revenues	146,987	202,482
Accrued expenses and other current liabilities	18,847	37,592
<u>Total</u> current liabilities	206,773	302,381
<b>LONG-TERM LIABILITIES:</b>		
Long-term deferred revenues	9,746	14,329
Long-term deferred tax liabilities	634	764
long term loan	-	1,219
<u>Total</u> long-term liabilities	10,380	16,312
<b>TOTAL LIABILITIES</b>	<b>217,153</b>	<b>318,693</b>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>SHAREHOLDERS' EQUITY (DEFICIENCY):</b>		
Ordinary shares of NIS 0.01 par value – Authorized: 500,000,000 shares at December 31, 2016 and 2017; Issued and outstanding: 44,297,761 and 46,453,583 shares at December 31, 2016 and 2017, respectively;	74	80
Additional paid-in capital	241,154	311,107
Accumulated other comprehensive loss	(389 )	(286 )
Accumulated deficit	(243,308)	(299,581)
<u>Total</u> shareholders' equity (deficiency)	(2,469 )	11,320
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)</b>	<b>\$214,684</b>	<b>\$330,013</b>

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

March 29, 2018

Date of approval of the Consolidated financial statements

Avishai Abrahami  
Chief Executive Officer

Lior Shemesh  
Chief Financial Officer

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WIX.COM LTD.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

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

	Year ended		
	December 31,		
	2015	2016	2017
Revenues	\$203,518	\$290,103	\$425,636
Cost of revenues	34,970	45,287	69,391
Gross profit	168,548	244,816	356,245
Operating expenses:			
Research and development	77,647	105,368	153,635
Selling and marketing	120,010	156,512	204,435
General and administrative	19,526	26,968	48,186
<u>Total</u> operating expenses	217,183	288,848	406,256
Operating loss	(48,635 )	(44,032 )	(50,011 )
Financial income (expenses), net	77	247	(5,015 )
Other income (expenses)	(11 )	(4 )	76
Loss before taxes on income	(48,569 )	(43,789 )	(54,950 )
Taxes on income	2,765	3,107	1,323
Net loss	\$(51,334 )	\$(46,896 )	\$(56,273 )
Basic and diluted net loss per ordinary share	\$(1.30 )	\$(1.12 )	\$(1.24 )
Other comprehensive loss			
Unrealized loss from marketable securities	-	-	(291 )
Unrealized gains (loss) on cash flow hedge	2,702	(141 )	394
Other comprehensive income (loss) for the period	2,702	(141 )	103
Total comprehensive loss	\$(48,632 )	\$(47,037 )	\$(56,170 )

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

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WIX.COM LTD.

## STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)

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

	Ordinary shares Shares	Amount	Additional paid-in capital	Other comprehensive loss	Accumulated deficit	Total Shareholders' deficiency
Balance as of January 1, 2015	38,419,193	63	166,615	(2,950 )	(145,078 )	18,650
Exercise of options and warrants	1,853,653	1	6,817	-	-	6,818
Tax benefit related to exercise of share options	-	-	609	-	-	609
Share-based compensation	-	-	18,750	-	-	18,750
Other comprehensive income	-	-	-	2,702	-	2,702
Net loss	-	-	-	-	(51,334 )	(51,334 )
Balance as of December 31, 2015	40,272,846	64	192,791	(248 )	(196,412 )	(3,805 )
Exercise of options and warrants	4,024,915	10	19,584	-	-	19,594
Tax benefit related to exercise of share options	-	-	731	-	-	731
Share-based compensation	-	-	28,048	-	-	28,048
Other comprehensive loss	-	-	-	(141 )	-	(141 )
Net loss	-	-	-	-	(46,896 )	(46,896 )
Balance as of December 31, 2016	44,297,761	\$ 74	\$ 241,154	\$ (389 )	\$ (243,308 )	\$ (2,469 )

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

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WIX.COM LTD.

## STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)

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

	Ordinary shares		Additional	Other	Accumulated	Total
	Shares	Amount	paid-in	comprehensive	deficit	shareholders'
			capital	loss		deficiency
Balance as of December 31, 2016	44,297,761	\$ 74	\$ 241,154	\$ (389	) \$ (243,308	) \$ (2,469 )
Exercise of options	2,155,822	6	22,253	-	-	22,259
Share-based compensation	-	-	47,700	-	-	47,700
Other comprehensive income	-	-	-	103	-	103
Net loss	-	-	-	-	(56,273	) (56,273 )
Balance as of December 31, 2017	46,453,583	\$ 80	\$ 311,107	\$ (286	) \$ (299,581	) \$ 11,320

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

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WIX.COM LTD.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2015	2016	2017
<u>Cash flows from operating activities:</u>			
Net loss	\$(51,334)	\$(46,896)	\$(56,273 )
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation	4,999	4,538	5,654
Amortization of intangible assets	636	747	2,753
Share based compensation expenses	18,750	28,048	47,700
Tax benefit related to exercise of share options	609	731	-
Interest and exchange rate on short-term and long-term deposits	(805 )	(669 )	(555 )
Amortization of premium and discount and accrued interest on marketable securities, net	-	-	(77 )
Deferred taxes, net	(111 )	(317 )	(2,719 )
Increase in trade receivables	(5,411 )	(1,818 )	(1,936 )
Increase in prepaid expenses and other current and long-term assets	(2,597 )	(6,284 )	(1,824 )
Increase in trade payables	7,483	8,290	11,834
Increase in employees and payroll accruals	1,565	2,956	5,627
Increase in short term and long term deferred revenues	38,169	51,966	58,353
Increase (decrease) in accrued expenses and other current liabilities	8,923	(719 )	14,515
Net cash provided by operating activities	20,876	40,573	83,052
<u>Cash flows from investing activities:</u>			
Proceeds from short-term and restricted deposits	60,162	49,392	52,311
Investment in short-term and restricted deposits	(82,038)	(30,526)	(88,706 )
Investment in marketable securities	-	(23,724)	(33,189 )
Proceeds from marketable securities	-	980	245
Purchase of property and equipment	(6,342 )	(4,415 )	(11,649 )
Capitalization of software development costs	-	-	(720 )
Payments for businesses acquired	-	-	(33,091 )
Acquisition of intangible assets	(450 )	(100 )	(75 )
Net cash used in investing activities	(28,668)	(8,393 )	(114,874)
<u>Cash flows from financing activities:</u>			
Credit line repayment	-	-	(170 )
Proceeds from exercise of options and ESPP shares	6,818	21,658	24,158
Net cash provided by financing activities	6,818	21,658	23,988
Increase (decrease) in cash and cash equivalents	(974 )	53,838	(7,834 )
Cash and cash equivalents at the beginning of the period	40,200	39,226	93,064

Cash and cash equivalents at the end of the period	\$39,226	\$93,064	\$85,230
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WIX.COM LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

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U.S. dollars in thousands

	Year ended December 31,		
	2015	2016	2017
<u>Supplemental disclosure of cash flow activities:</u>			
Non-cash purchase of property and equipment	\$518	\$482	\$1,019
Cash paid during the year for taxes	\$2,226	\$2,644	\$4,422

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

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WIX.COM LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1:- GENERAL

Wix.com Ltd. was incorporated on October 5, 2006, under the laws of the State of Israel, and commenced  
a. operations on the same date.

Wix.com Ltd. has established a number of subsidiaries in local jurisdictions to comply with local law requirements regarding payment collection, (Wix.com, Inc. (the "U.S. Subsidiary"), Wix.com Brasil Serviços de Internet Ltda. (the "Brazilian Subsidiary"), Wix.com Luxemburg S.a.r.l (the "Luxembourgian Subsidiary"), Wix.com Services Mexico S de RL de C.V. (the "Mexican Subsidiary"), Wix Com India Private Limited (the "Indian Subsidiary) and Wix.com Colombia S.A.S (the "Colombian Subsidiary").During 2016 the Company established new Entity in Singapore and as of December 31, 2017 the Singapore Subsidiary and the Colombian Subsidiary had not yet commenced their operations. In addition, the Company established wholly-owned subsidiaries in Lithuania under the name Wix.com UAB (the "Lithuanian Subsidiary") and in Germany under name (the "Wix.com Germany GmbH") which is engaged in R&D activity.

Wix.com Ltd. And its subsidiaries (the "Company") develops and markets an internet service that allows users to create web content.

In January 2017, the Company acquired 100% of the share capital of Loyalblocks Ltd., a privately held Israeli  
b. company (doing business as Flok), in consideration of assuming certain liabilities. See note 4 for additional information.

In February 2017, the Company acquired 100% of the capital stock of DeviantArt, Inc., a privately held Delaware  
c. based corporation, for cash consideration of approximately \$36 million, including the assumption of approximately \$3 million of liabilities. See note 4 for additional information.

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WIX.COM LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP").

a. Use of estimates:

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates, judgments and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The Company evaluates on an ongoing basis its assumptions, including those related to contingencies, income taxes, deferred taxes and liabilities, goodwill valuation, share-based compensation cost, as well as in estimates used in applying the revenue recognition policy. The Company's management believes that the estimates, judgment and assumptions used are reasonable based upon information available at the time they are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

b. Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Intercompany transactions and balances, have been eliminated upon consolidation.

c. Financial statements in U.S. dollars:

A majority of the Company's revenues are generated in U.S. dollars. In addition, the equity investments are in U.S. dollars and substantial portion of the Company costs are incurred in U.S dollars. The Company's management believes that the U.S. dollar is the currency of the primary economic environment in which the Company operates. Thus, the functional and reporting currency of the Company is the U.S dollar.

Accordingly, monetary accounts maintained in currencies other than the U.S. dollar are remeasured into U.S. dollars in accordance with Statement of the Accounting Standard Codification ("ASC") No. 830 "Foreign Currency Matters" ("ASC No. 830"). All transaction gains and losses of the remeasured monetary balance sheet items are reflected in the statement of comprehensive loss as financial income or expenses, as appropriate.

The functional currency of the U.S. Subsidiary is the U.S. dollar.

The functional currency of the Lithuanian Subsidiary, Luxembourgian Subsidiary and Brazilian Subsidiary is the U.S. dollar as these subsidiaries' revenues, intercompany transaction, budget and financing are denominated in U.S. dollars.

WIX.COM LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

d. Cash and cash equivalents:

Cash equivalents are short-term highly liquid investments that are readily convertible to cash with original maturities of three months or less, at the date acquired.

e. Short-term deposits:

Short-term deposits are deposits with maturities over three months and of up to one year. As of December 31, 2016 and 2017, the Company's bank deposits were denominated in U.S. dollars and New Israel Shekels (NIS) and bore interest at weighted average interest rates of 1.28% and 2.08%, respectively. Short-term deposits are presented at their cost, including accrued interest.

f. Restricted deposits:

Restricted deposits are deposits with maturities of up to one year and are used as security for the rental of premises, for the Company's credit cards, and as a security for the Company's hedging activities. As of December 31, 2016 and 2017 the Company's bank deposits were in U.S. dollars and New Israel Shekels (NIS) and bore interest at weighted average interest rates of 0.05% and 0.05%, respectively. Restricted deposits are presented at their cost, including accrued interest.

g. Marketable securities:

The Company's marketable securities consist of U.S. federal deposit insured corporation and corporate bonds. Marketable securities are classified as available for sale at the time of purchase. The Company intent to hold the marketable securities within average of 12 months from the date of purchase.

Available-for-sale securities are carried at fair value, with the unrealized gains and losses, reported in accumulated other comprehensive income (loss) in shareholders' equity. Realized gains and losses on sale of investments are included in financial income, net and are derived using the specific identification method for determining the cost of securities sold.

Interest on these securities, as well as amortization or accretion of premiums or discounts, are included in financial income, net. All investments are assessed as to whether any unrealized loss positions are other than temporarily impaired. Impairments are considered other than temporary if they are related to deterioration in credit risk. The Company regularly reviews its investment portfolio and charges unrealized losses against net income when a decline in fair value is determined to be other-than-temporary. The Company reviews several factors to determine whether a loss is other-than-temporary. Factors considered in making such a determination include the duration and severity of the impairment, the reason for the decline in value, the potential recovery period and the Company's intent to sell, including whether it is more likely than not that the Company will be required to sell the investment before recovery of cost basis. Based on the above factors, the Company concluded that unrealized losses on its available-for-sale securities, for the year ended December 31, 2017 were not other than temporary.



WIX.COM LTD.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

## h. Property and equipment, net:

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, peripheral equipment and electronic equipment	15 – 33 (mainly 33)
Office furniture and equipment	6 – 14 (mainly 6)
Leasehold improvements	Over the shorter of the related lease period or the life of the asset

## i. Impairment of Long-lived assets and intangible assets subject to amortization:

The long-lived assets of the Company and its subsidiaries are reviewed for impairment in accordance with ASC No. 360, "Property, Plant and Equipment" ("ASC No. 360"), whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. During the years ended December 31, 2015, 2016 and 2017, no impairment losses have been identified.

## j. Business combinations:

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

Acquisition related costs are expensed to the statement of income in the period incurred. See note 4 for additional information.

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WIX.COM LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

k. Goodwill and intangible assets:

Goodwill and certain other purchased intangible assets have been recorded in the Company's financial statements as a result of acquisitions. Goodwill represents excess of the costs over the net tangible and intangible assets acquired of businesses acquired Under ASC topic 350, "Intangible - Goodwill and other", ("ASC No. 350") goodwill is not amortized, but rather is subject to impairment test. In addition, the costs of intangible assets that were purchased from others for use in research and development activities were recorded as assets to the extent that they have alternative future use.

ASC 350 allows an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. If the qualitative assessment does not result in a more likely than not indication of impairment, no further impairment testing is required. If it does result in a more likely than not indication of impairment, the two-step impairment test is performed. Alternatively, ASC 350 permits an entity to bypass the qualitative assessment for any reporting unit and proceed directly to performing the first step of the goodwill impairment test. The Company operates in one reporting segment, and this segment comprises its only reporting unit. Therefore, goodwill is tested for impairment by comparing the fair value of the reporting unit with its carrying value. The Company elects to perform an annual impairment test of goodwill as of October 1 of each year, or more frequently if impairment indicators are present.

Intangible assets that are considered to have definite useful life are amortized using the straight-line basis over their estimated useful lives, which weighted average amortization period of 13 years. The carrying amount of these assets is reviewed whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability of these assets is measured by comparison of the carrying amount of the asset to the future undiscounted cash flows the asset is expected to generate. If the asset is considered to be impaired, the amount of any impairment is measured as the difference between the carrying value and the fair value of the impaired asset. As of December 31, 2015, 2016 and 2017, no impairment losses have been recognized.

l. Reclassification:

Certain amounts in the prior years' financial statements have been reclassified to conform to the current year's presentation. Such reclassifications have no effect on shareholders' equity or the net income as previously reported.

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WIX.COM LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

m. Derivatives instruments:

ASC No. 815, "Derivative and Hedging" ("ASC No. 815"), requires companies to recognize all of their derivative instruments as either assets or liabilities in the statement of balance sheets at fair value.

For those derivative instruments that are designated and qualify as hedging instruments, a company must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge, cash flow hedge or a hedge of a net investment in a foreign operation.

Derivative instruments designated as hedging instruments:

For derivative instruments that are designated and qualify as a cash flow hedge (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive loss and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. For derivative instruments not designated as hedging instruments, the gain or loss is recognized in current earnings during the period of change.

The net fair value of derivative instruments balance as of December 31, 2016, totaled \$ 67, and is presented on a gross basis as prepaid expenses and other current assets in the amount of \$ 606 and as accrued expenses and other current liabilities in the amount of \$ 539. The net fair value of derivative instruments balance as of December 31, 2017 totaled \$ 807, and is presented on a gross basis as prepaid expenses and other current assets in the amount of \$ 891 and as accrued expenses and other current liabilities in the amount of \$ 84.

In the years ended December 31, 2015, 2016 and 2017, the Company recorded as operating income (expenses) net from hedging transactions in the amount of (\$2,102), \$831 and \$ 5,417, respectively.

To hedge against the risk of overall changes in cash flows resulting from foreign currency salary payments, rent and other overhead vendors during the year, the Company has instituted a foreign currency cash flow hedging program. The Company hedges portions of its forecasted salary, rent and other overhead cash flow denominated in NIS. These option contracts are designated as cash flow hedges, as defined by ASC No. 815, and are all effective, based on third party valuation.

As of December 31, 2017, the amount recorded in accumulated other comprehensive income from the Company's currency option transactions is \$ 388. At December 31, 2017, the notional amounts of foreign exchange forward and options contracts into which the Company entered were \$ 52,886. The foreign exchange forward and options contracts will expire through 2018.

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WIX.COM LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Derivative instruments not designated as hedging instruments:

In addition to the derivatives that are designated as hedges as discussed above, the Company enters into certain foreign exchange forward and option transactions to economically hedge certain revenue transactions in Euros, British pounds, Brazilian Real, Mexican Pesos and Japanese Yen and expenses in NIS. Gains and losses related to such derivative instruments are recorded in financial expenses, net. At December 31, 2017, the notional amounts of foreign exchange forward contracts into which the Company entered were \$ 95,841. The foreign exchange forward and option transactions will expire through 2018.

The net fair value of derivative instruments balance as of December 31, 2016, totaled \$ 615, and is presented on a gross basis as prepaid expenses and other current assets in the amount of \$ 933 and as accrued expenses and other current liabilities in the amount of \$ 318. The net fair value of derivative instruments balance as of December 31, 2017 totaled \$ (2,587), and is presented on a gross basis as prepaid expenses and other current assets in the amount of \$ 302 and as accrued expenses and other current liabilities in the amount of \$ 2,889.

In the years ended December 31, 2015, 2016 and 2017, the Company recorded net financial income (expenses), net from hedging transactions in the amount of \$ 2,085, \$ 748 and \$ (7,101), respectively.

n. Severance pay:

The Israeli Severance Pay Law, 1963 ("Severance Pay Law"), specifies that employees are entitled to severance payment, following the termination of their employment. Under the Severance Pay Law, the severance payment is calculated as one month salary for each year of employment, or a portion thereof.

The majority of the Company's liability for severance pay is covered by the provisions of Section 14 of the Severance Pay Law ("Section 14"). Under Section 14 employees are entitled to monthly deposits, at a rate of 8.33% of their monthly salary, continued on their behalf to their insurance funds. Payments in accordance with Section 14 release the Company from any future severance payments in respect of those employees. As a result, the Company does not recognize any liability for severance pay due to these employees and the deposits under Section 14 are not recorded as an asset in the Company's balance sheet.

Severance expense for the years ended December 31, 2015, 2016 and 2017, amounted to \$ 4,038, \$ 5,411 and \$ 7,768 respectively.

o. U.S. employees defined contribution plan:

The U.S. Subsidiary has a 401(K) defined contribution plan covering certain employees in the U.S. All eligible employees may elect to contribute up to 100%, but generally not greater than \$ 18 per year (for certain employees over 50 years of age the maximum contribution is \$ 24 per year), of their annual compensation to the plan through salary deferrals, subject to Internal Revenue Service limits.



WIX.COM LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The U.S. Subsidiary matches 4% of employee contributions up to the plan with no limitation. During the years ended December 31, 2015, 2016 and 2017, the U.S. Subsidiary recorded expenses for matching contributions in amounts of \$ 121, \$ 167 and \$ 334, respectively.

p. Revenue recognition:

The Company provided an online platform that enables users to create websites using Flash and HTML5 technology and generates revenues primarily from services related to such websites. The Company also offers its users the ability to purchase and manage domain name and software applications that can be integrated as add-ons to their websites.

The Company recognizes revenues in accordance with ASC No. 605-10-S99, (SEC Staff Accounting Bulletin ("SAB") No. 104, "Revenue Recognition"), when (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been rendered to the customer, (iii) the fee is fixed or determinable, and (iv) collectability is reasonably assured.

Revenues related to services for websites and purchase and registration of domain names are recognized ratably over the term of the service period. Revenues related to software applications, developed by third party application developers are recognized when earned. The Company accounts for sales of third party application on a net basis by recognizing the commission it retains from each sale. The portion of the gross amount billed to customers that is remitted by the Company to third-party application developers is not reflected in the Company's consolidated statements of comprehensive loss.

The Company offers a 14-day money back guaranty ("Guaranty Period"). The Company considers such amount collected from new premium subscriptions as customer deposits until the end of the 14-day trial period. Revenues are recognized once the Guaranty Period has expired.

Although, in general, the Company does not grant rights of refund, there are certain instances where such refunds occur. Since the Company collects most of its revenues via online credit card billing, a small portion of its users elect to chargeback due to disputes over the credit card statements and/or claims of false transaction, and accordingly ask for refunds. The Company maintains a provision for chargebacks and refunds in accordance with ASC No. 605, "Revenue Recognition", which is estimated, based primarily on historical experience as well as management judgment, and is recorded through a reduction of revenue.

Deferred service revenues primarily include unearned amounts received from customers but not recognized as revenues.

Part of the Company's revenue transaction includes multiple elements within a single contract if it is determined that multiple units of accounting exist.

WIX.COM LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Accounting Standards Update ("ASU") No. 2009-13, "Multiple-Deliverable Revenue Arrangements, (amendments to ASC Topic 605, Revenue Recognition)" ("ASU No. 2009-13"), requires entities to allocate revenue in an arrangement using estimated selling prices of the delivered goods and services based on a selling price hierarchy. The amendments eliminate the residual method of revenue allocation and require revenue to be allocated using the relative selling price method.

The primary types of transactions in which the Company engages for which ASU No. 2009-13 is applicable are agreements that include multiple elements which are delivered at different points in time. Such elements may include some or all of the following:

- Services for websites; and
- Purchase and registration of domain name;

The Company considers the sale of each of the above stated elements in bundled agreement to be separate unit of accounting for the arrangement and defers the relative selling price of the undelivered element to the period in which revenue is earned.

Pursuant to the guidance under ASU No. 2009-13, when a sales arrangement contains multiple elements, the Company allocates revenue to each element based on a selling price hierarchy. The selling price for a deliverable is based on its VSOE if available, third-party evidence ("TPE") if VSOE is not available, or estimated selling price ("ESP") if neither VSOE nor TPE is available. VSOE of selling price is based on the price charged when the element is sold separately. In determining VSOE, it is required that a substantial majority of the selling prices fall within a reasonable range based on historical discounting trends for specific services. TPE of selling price is established by evaluating largely interchangeable competitor services in stand-alone sales to similarly situated customers.

Website services and domain name registrations are sold separately and therefore the selling price (VSOE) is based on stand-alone transactions.

q. Research and development costs:

Research and development costs are charged to the statements of comprehensive loss as incurred.

r. Internal use software costs:

The Company capitalizes costs related to the online platform for internal-use incurred during the application development stage. Costs incurred in the process of software production are charged to expenses as incurred. Certain software development costs are capitalized under ASC350-40, Internal-Use Software and are included in property and equipment, net in the consolidated balance sheets.

Capitalization of such costs begins when the preliminary project stage is complete and ceases at the point in which the project is substantially complete and is ready for its intended purpose.

During 2017 the company capitalized \$ 720. During 2015, 2016 the Company did not capitalize Internal use software costs.

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WIX.COM LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

s. Advertising expenses:

Advertising expenses consist primarily of cost-per click expenses, social networking expenses, marketing campaigns and display advertisements. Advertising expenses are charged to the statement of comprehensive loss, as incurred. Advertising expenses for the years ended December 31, 2015, 2016 and 2017 amounted to \$ 87,567, \$ 113,151 and \$ 141,346, respectively.

t. Share-based compensation:

The Company accounts for share-based compensation in accordance with ASC 718, "Compensation - Stock Compensation" ("ASC No. 718"). ASC No. 718 requires companies to estimate the fair value of equity-based payment 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 statements of comprehensive loss.

The Company recognizes compensation expenses for the value of its awards granted based on the straight line method over the requisite service period of each of the awards, net of estimated forfeitures. The Company estimates forfeitures at the grant date, and revised its estimate if necessary, in subsequent periods if actual forfeitures differ from those estimates. Some of the options granted are subject to certain performance criteria: accordingly compensation expense is recognized for such awards when it become probable that the related performance condition will be satisfied. The company recognizes compensation expenses for the value of awards granted based on the accelerated method for performance based awards.

The Company selected the Black-Scholes-Merton option pricing model as the most appropriate model for determining the fair value for its stock options awards and Employee Stock Purchase Plan, whereas the fair value of restricted stock units is based on the closing market value of the underlying shares at the date of grant. The option-pricing model requires a number of assumptions, of which the most significant are the expected share price, volatility and the expected option term. Expected volatility was calculated based upon actual historical stock price movements over the most recent periods ending on the grant date, equal to the expected term of the options. The expected term of options granted is based upon historical experience and represents the period of time between when the options are granted and when they are expected to be exercised. The risk-free interest rate is based on the yield from U.S. treasury bonds with an equivalent term to the expected term of the options.

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WIX.COM LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company applies ASC No. 718 and ASC No. 505-50 "Equity Based Payments to Non-Employees" ("ASC No. 505-50") with respect to options and warrants issued to non-employees consultants. ASC No. 718 requires the use of option valuation models to measure the fair value of the options and warrants at the date of grant.

In March 2016, the FASB issued ASU 2016-09, "Compensation – Stock Compensation", which effects all entities that issue share-based payment awards to their employees. The amendments in this ASU cover such areas as the recognition of excess tax benefits and deficiencies, the classification of those excess tax benefits on the statement of cash flows, an accounting policy election for forfeitures, the amount an employer can withhold to cover income taxes and still qualify for equity classification and the classification of those taxes paid on the statement of cash flows.

The Company adopted ASU 2016-09 in the first quarter of fiscal year 2017 and elected to retain its existing accounting policy and estimate expected forfeitures.

In addition, historically, excess tax benefits or deficiencies from the Company's equity awards were recorded as additional paid-in capital in its consolidated balance sheets. As a result of adoption, the Company will prospectively record any excess tax benefits or deficiencies from its equity awards as part of its provision for income taxes in its consolidated statements of operations in the reporting periods in which equity vesting occurs. The Company is required to classify excess tax benefits along with other income tax cash flows as an operating activity either prospectively or retrospectively. The Company elected to apply the change in presentation to the statements of cash flows prospectively from January 1, 2017

u. Income taxes:

The Company accounts for income taxes in accordance with ASC No. 740, "Income Taxes" ("ASC No. 740"). This codification prescribes the use of the asset and 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 for carry-forward tax losses. Deferred taxes 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 if it is more likely than not that some portion or all of the deferred tax asset will not be realized.

The deferred tax assets and liabilities be classified as noncurrent in the statement of financial position

The Company accounts for uncertain tax positions in accordance with the provisions of ASC No.740. Accounting guidance addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the consolidated financial statements, under which a company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position.

The tax benefits recognized in the consolidated financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. Accordingly, the Company reports a liability for unrecognized tax benefits resulting from uncertain tax positions taken or expected to be taken in a tax return. The Company recognizes interest and penalties, if any, related to

unrecognized tax benefits in tax expense.

The Company classifies interest and penalties on income taxes as financial expenses and general and administrative expenses, respectively.

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WIX.COM LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

v. Basic and diluted net loss per share:

Basic and diluted net loss per share is computed based on the weighted-average number of shares of ordinary shares outstanding during each year. Diluted loss per share is computed based on the weighted average number of ordinary shares outstanding during the period, plus dilutive potential shares considered outstanding during the period, in accordance with ASC 260-10. Basic and diluted net loss per share of ordinary shares was the same for each period presented as the inclusion of all potential ordinary shares outstanding was anti-dilutive.

For the years ended December 31, 2015, 2016 and 2017, all outstanding options and RSU's have been excluded from the calculation of the diluted net loss per share since their effect was anti-dilutive and the total options and RSU's that have been excluded from the calculations was 11,470,910, 9,773,837 and 10,294,200, respectively.

w. Comprehensive loss:

The Company accounts for comprehensive loss in accordance with Accounting Standards Codification No. 220, "Comprehensive Income" ("ASC No. 220"). This statement establishes standards for the reporting and display of comprehensive loss and its components in a full set of general purpose financial statements. Comprehensive loss generally represents all changes in shareholders' equity during the period except those resulting from investments by, or distributions to shareholders.

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WIX.COM LTD.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The total accumulated other comprehensive loss was comprised as follows:

	Year ended December 31, 2017		
	Unrealized losses on marketable securities	Realized gain (losses) on marketable hedges	Total
Beginning Balance	-	(389)	\$(389)
Other comprehensive income before reclassifications, net	(291)	5,812	5,521
Amounts reclassified from accumulated other comprehensive income	-	(5,418)	(5,418)
Net current period other comprehensive loss	(291)	394	103
Total accumulated other comprehensive loss	(291)	5	\$(286)

  

	Year ended December 31, 2016		
	Unrealized losses on marketable securities	Realized gain (losses) on marketable hedges	Total
Beginning Balance	-	(248)	\$(248)
Other comprehensive income before reclassifications, net	-	690	690
Amounts reclassified from accumulated other comprehensive income	-	(831)	(831)
Net current period other comprehensive loss	-	(141)	(141)
Total accumulated other comprehensive loss	-	(389)	\$(389)

## x. Concentration of credit risks:

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, short-term and restricted deposits.

The majority of the Company's and its subsidiaries' cash and cash equivalents, short-term and restricted deposits are invested with major bank in Israel, Brazil and the United States. Such investments in the United States may be in excess of insured limits and are not insured in other jurisdictions. Generally, these investments may be redeemed upon demand and, therefore, bear minimal risk.

WIX.COM LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

y. Fair value of financial instruments:

The estimated fair value of financial instruments has been determined by the Company using available market information and valuation methodologies. Considerable judgment is required in estimating fair values. Accordingly, the estimates may not be indicative of the amounts the Company could realize in a current market exchange. The following methods and assumptions were used by the Company in estimating the fair value of their financial instruments:

The carrying values of cash and cash equivalents, short-term and restricted deposits, trade receivables, prepaid expenses and other current assets, trade payables, employees and payroll accruals and accrued expenses and other current liabilities approximate fair values due to the short-term maturities of these instruments.

The Company applies ASC No. 820, "Fair Value Measurements and Disclosures" ("ASC No. 820"), with respect to fair value measurements of all financial assets and liabilities.

In accordance with ASC No. 820, the Company measures its money market funds, marketable securities and foreign currency derivative contracts at fair value. Money market funds and marketable securities are classified within Level 1 or Level 2. This is because these assets are valued using quoted market prices or alternative pricing sources and models utilizing market observable inputs. Foreign currency derivative contracts are classified within Level 2 as the valuation inputs are based on quoted prices and market observable data of similar instruments.

Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. A three-tier fair value hierarchy is established as a basis for considering such assumptions and for inputs used in the valuation methodologies in measuring fair value:

Level 1 - Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - Include other inputs that are directly or indirectly observable in the marketplace.

Level 3 - Unobservable inputs which are supported by little or no market activity.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

WIX.COM LTD.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The following table represents the fair value hierarchy of the Company's financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2017 .

	Level		
	1	Level 2	Total
Money market funds	\$331	\$-	\$331
Certificates of deposits	-	11,013	11,013
Corporate bonds	-	21,717	21,717
	331	32,730	33,061
Derivatives contracts	-	1,192	1,192
Total financial assets	331	33,922	34,253
Derivatives contracts	-	2,973	2,973
Total financial liabilities	\$-	\$2,973	\$2,973

The following table represents the fair value hierarchy of the Company's financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2016 .

	Level		
	1	Level 2	Total
Money market funds	\$334	\$-	\$334
Certificates of deposits	-	22,742	22,742
	334	22,742	23,076
Derivatives contracts	-	1,539	1,539
Total financial assets	334	24,281	24,615
Derivatives contracts	-	857	857
Total financial liabilities	\$-	\$857	\$857

## z. Government grants:

Government grants received by the Company relating to categories of operating expenditures are credited to the consolidated statements of operations during the period in which the expenditure to which they relate is charged. Salary bearing grants from the Ministry of Economy and Industry of Israel for funding certain approved positions are recognized at the time when the Company is entitled to such grants, on the basis of the related costs incurred, and included as a deduction from salary expenses.

The Company recorded grants in the amounts of \$425 and \$1,030 for the years ended December 31, 2016 and 2017 respectively. The conditions to receive these grants are based on actual certain approved HC position. The company

may be subject to penalties if certain criteria under the grants are not met.

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WIX.COM LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

aa. The impact of recently issued accounting standards still not effective for the Company as of December 31, 2017 is as follows:

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU 2014-09 guidance on revenue from contracts (Topic 606) with customers that will supersede the existing revenue recognition guidance and clarify the principles for recognizing revenue. The core principle is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services.

The guidance determines a five-step model for recognizing revenue from contracts with customers:

1. Identifying the contract
2. Identifying performance obligations
3. Determining the transaction price
4. Allocating the transaction price to separate performance obligations
5. Recognizing revenue

Other major provisions include, among others, consideration of the time value of money in the transaction price and requiring estimates of variable consideration. The guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

The effective date was deferred for one year to the interim and annual periods beginning on or after December 15, 2017.

The most significant impact of the standard relates to our accounting for revenue from Domain Names and Third Party Apps. Specifically, under the new standard, the Company will recognize revenues from Domain Names and Third Party Apps at the time of billing and delivery rather than over the contract period.

The standard permits either a full retrospective or a modified retrospective approach for the adoption. The Company adopted the standard on January 1, 2018, using the modified retrospective method of adoption which means that the cumulative impact of the adoption will be recognized in retained earnings as of January 1, 2018 and that comparatives will not be restated. The adjustment to retained earnings will be \$14.7 million net, due to earlier revenue recognition of Domain Names and Third Party Apps in amount of \$28.1 million offset by deferred Domain Name costs in amount of \$13.4 million.





WIX.COM LTD.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The following table presents the theoretical effect to our income statement as of December 31, 2017.

	Year ended		
	December 31,		2017 Impact
	2017 ASC 605	2017 ASC 606	
Revenues	\$425,636	\$432,615	\$6,979
Cost of revenues	69,391	72,230	2,839
Gross profit	356,245	360,385	4,140
Operating expenses:			
Research and development	153,635	153,635	-
Selling and marketing	204,435	204,435	-
General and administrative	48,186	48,186	-
<u>Total</u> operating expenses	406,256	406,256	-
Operating loss	(50,011 )	(45,871 )	4,140
Financial income (expenses), net	(5,015 )	(5,015 )	-
Other expenses	76	76	-
Loss before taxes on income	(54,950 )	(50,810 )	4,140
Taxes on income	1,323	1,323	-
Net loss	\$(56,273 )	\$(52,133 )	4,140
Basic and diluted net loss per ordinary share	\$(1.24 )	\$(1.15 )	\$0.09

## Financial Instruments

In January 2016, the FASB issued Accounting Standards Update No. 2016-01 (ASU 2016-01) "Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." ASU 2016-01 amends various aspects of the recognition, measurement, presentation, and disclosure for financial instruments. With respect to our consolidated financial statements, the most significant impact relates to the accounting for equity investments. It will impact the disclosure and presentation of financial assets and liabilities. ASU 2016-01 is effective for annual reporting periods, and interim periods within those years beginning after December 15, 2017. Early adoption by public entities is permitted only for certain provisions. The Company expects no material impact on its financial statement.



WIX.COM LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments” (“ASU 2016-13”). The standard changes the methodology for measuring credit losses on financial instruments and the timing of when such losses are recorded. ASU 2016-13 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2019. Early adoption is permitted for fiscal years, and interim periods within those years, beginning after December 15, 2018. The Company is currently evaluating the impact of this standard on its Consolidated Financial Statements.

Leases

In February 2016, the FASB issued ASU 2016-02, “Leases” (Topic 842), whereby, lessees will be required to recognize for all leases at the commencement date a lease liability, which is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. A modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements must be applied. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Companies may not apply a full retrospective transition approach. ASU 2016-02 is effective for annual and interim periods beginning after December 15, 2018. Early application is permitted. The Company is evaluating the potential impact of this pronouncement.

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WIX.COM LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Statement of Cash Flow

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments ("ASU 2016-15"). ASU 2016-15 is intended to reduce diversity in practice of how certain transactions are classified in the statement of cash flows. ASU 2016-15 is effective for public entities for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company expects no material impact on its statement of cash flows upon adoption.

In November 2016, the FASB issued Accounting Standards Update No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (ASU 2016-18), which requires companies to include amounts generally described as restricted cash and restricted cash equivalents in cash and cash equivalents when reconciling beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years.. The Company expects no material impact on its statement of cash flows upon adoption.

Intangibles Assets

In January 2017, the FASB issued ASU 2017-01 "Business Combinations (Topic 805): Clarifying the Definition of a Business" (ASU 2017-01), which provides a more robust framework to use in determining when a set of assets and activities is a business. Because the current definition of a business is interpreted broadly and can be difficult to apply, stakeholders indicated that analyzing transactions is inefficient and costly and that the definition does not permit the use of reasonable judgment. ASU 2017-01 provides more consistency in applying the guidance, reduces the costs of application, and makes the definition of a business more operable. This update is effective for annual and interim periods beginning after December 15, 2017. The Company expects no material impact on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment." The standard eliminates the requirement to measure the implied fair value of goodwill by assigning the fair value of a reporting unit to all assets and liabilities within that unit ("the Step 2 test") from the goodwill impairment test. Instead, if the carrying amount of a reporting unit exceeds its fair value, an impairment loss is recognized in an amount equal to that excess, limited by the amount of goodwill in that reporting unit.

The standard will become effective for us beginning January 1, 2020 and must be applied to any annual or interim goodwill impairment assessments after that date. Early adoption is permitted.

The Company is currently evaluating the effect that the adoption of this ASU will have on its consolidated financial statements.

WIX.COM LTD.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

## Derivatives and Hedging

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities, which expands the activities that qualify for hedge accounting and simplifies the rules for reporting hedging transactions. The standard is effective for the Company beginning January 1, 2019. Early adoption is permitted. The Company does not expect that the adoption of this standard will have a material impact on its consolidated financial statements and related disclosures.

## NOTE 3:- MARKETABLE SECURITIES:

At December 31, 2017, the Company held marketable securities classified as available-for-sale securities as follows:

	December 31, 2017			Fair value
	Amortized cost	Gross unrealized gains	Gross unrealized losses	
Certificates of deposits	\$11,075	-	\$ (62 )	\$11,013
Corporate bonds:				
Maturing within one year	2,113	-	(10 )	2,103
Maturing within between one to five years	19,833	-	(219 )	19,614
	21,946	-	(229 )	21,717
	\$33,021	-	\$ (291 )	\$32,730

At December 31, 2016, the Company held marketable securities classified as available-for-sale securities as follows:

	December 31, 2016			Fair value
	Amortized cost	Gross unrealized gains	Gross unrealized losses	
Certificates of deposits	\$22,742	-	\$ -	\$22,742
	\$22,742	-	\$ -	\$22,742

All investments with an unrealized loss as of December 31, 2017 are with continuous unrealized losses for less than 12 months .

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WIX.COM LTD.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 4:- BUSINESS COMBINATION:

In January 2017, the Company acquired 100% of the share capital of Loyalblocks Ltd., a privately held Israeli company (doing business as “Flok”), with no consideration. Loyalblocks is a provider of customer loyalty and engagement tools for small businesses. The Company intends to use Flok’s products and technology to enhance its existing customer relationship management tools and commerce capabilities we offer our users.

The Company accounted for the transaction using the acquisition method, which requires, among other things, that the assets acquired and liabilities assumed in a business combination be recognized at their respective estimated fair values as of the acquisition date. The following table summarizes the fair values of the assets acquired and liabilities assumed:

	(in thousands)
Short term investment	\$ 15
Other current assets	46
Property and equipment, net	53
Other long term assets	46
Intangible assets	1,354
Goodwill	1,379
 Total Assets	 \$ 2,893
Current liabilities	1,720
Long term loan	1,389
 Total Liabilities	 \$ 3,109
 Total purchase price allocation, net of cash acquired	 \$ (216 )

Acquisition expenses for the Flok acquisition for the year ended December 31, 2017 were \$0.4 million and consisted of employee-related expenses.

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WIX.COM LTD.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 4:- BUSINESS COMBINATION (cont.)

The following table provides details regarding the identifiable assets as of the date of the acquisition:

	Fair value (in thousands)	Weighted Average Useful Life (in years)
Technology	1,117	6
Customer relations	237	5
Total purchased intangible assets	\$ 1,354	

Customer relationships represent the fair value of future revenues that will be derived from the sale of products to existing customers of Flok.

The Company used the comparative method ("with/without") of the income approach to determine the fair value of this intangible asset and utilized a discount rate of 22.25%.

Technology represents the current technology of Flok that has passed technological feasibility and is currently offered for sale to customers. The Company used the income approach to value the technology.

The Company used the comparative method ("with/without") of the income approach to determine the fair value of this intangible asset and utilized a discount rate of 22.25%.

Goodwill generated from this business combination is primarily attributable to synergies between the Company's and Flok respective products and services. The goodwill is not deductible for income tax purposes.

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

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WIX.COM LTD.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 4:- BUSINESS COMBINATION (cont.)

In February 2017, the Company acquired 100% of the capital stock of DeviantArt, Inc., (“DeviantArt”) a privately held Delaware based corporation, for cash consideration of approximately \$36 million, including the assumption of approximately \$3 million of liabilities, total net of approximately \$33 million. DeviantArt, based in Los Angeles, is one of the world's largest online communities dedicated to artists, art enthusiasts and designers. The Company expect DeviantArt to increase traffic and assist its product development and brand recognition growth. DeviantArt’s focus on developing and fostering online collaboration and communities is expected to provide Wix users with a platform to engage with creative designers and artists across multiple mediums.

The following table summarizes the fair values of the assets acquired and liabilities assumed:

	(in thousands)
Reserve deposit	\$ 195
Other current assets	1,237
Property and equipment, net	146
Other long term assets	31
Intangible assets	24,865
Goodwill	14,684
 Total Assets	 \$ 41,158
 Current liabilities	 7,851
 Total Liabilities	 \$ 7,851
 Total purchase price allocation, net of cash acquired	 \$ 33,307

Acquisition-related expenses for the DeviantArt acquisition for the year ended December 31, 2017 were \$0.5 million and Acquisition expenses for the DeviantArt acquisition for the year ended December 31, 2017 were \$4.3 million and primarily consisted of employee-related expenses.

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WIX.COM LTD.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 4:- BUSINESS COMBINATION (cont.)

The following table provides details regarding the identifiable assets acquired as of the date of the acquisition

	Fair value (in thousands)	Weighted Average Useful Life (in years)
Technology	1,906	5
Customer relations	10,430	15
Customer Data	12,043	15
Brand/Domain	486	7
Total purchased intangible assets	\$ 24,865	

Customer relationships represent the fair value of future revenues that will be derived from the sale of DeviantArt's products/services to existing customers of DeviantArt.

The Company used the MPEEM method of the income approach to determine the fair value of this intangible asset and utilized a discount rate of 14.25%.

Customer Data represent the fair value of future synergy that we will be derived from sale of Wix's products/services to the current DeviantArt users.

The Company determines the Customer Data fair value by calculating The difference between DeviantArt's value on a standalone basis (Calculated by BDO) and the total consideration paid by WIX, which represent in its perspective the additional amount that WIX was willing to pay for this synergy. The calculated difference was adjusted to reflect current customers only.

Technology represents the current technology of DeviantArt that has passed technological feasibility and is currently offered for sale to customers. The Company used the Relief from Royalty Method to value the Technology. The premise of the relief from royalty method is that ownership of the subject asset relieves the owner of the need to license the asset from a third party. Thus, by owning the intangible asset, the owner avoids the royalty payments required to license the asset. The relief from royalty is cash flow savings that are discounted to present value.

The Company applied royalty rate of 7.5% of revenues, and a discount rate of 20.25%.

Brand/Domain mainly represents all internet addresses and domain names, trade names, trademarks, industrial designs, brand names, etc. The Company used the Relief from Royalty Method to value the Brand/Domain. The premise of the relief from royalty method is that ownership of the subject asset relieves the owner of the need to license the asset from a third party. Thus, by owning the intangible asset, the owner avoids the royalty payments required to

license the asset. The relief from royalty is cash flow savings that are discounted to present value.

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WIX.COM LTD.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 4:- BUSINESS COMBINATION (cont.)

Goodwill generated from this business combination is primarily attributable to synergies between the Company's and DevianArt's respective products and services. The goodwill is not deductible for income tax purposes.

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

## NOTE 5:- PREPAID EXPENSES AND OTHER CURRENT ASSETS

	December 31,	
	2016	2017
Government authorities	\$588	\$2,504
Hedging transaction asset	1,539	1,192
Prepaid expenses	11,820	13,962
Other current assets	3,399	1,588
	\$17,346	\$19,246

## NOTE 6:- PROPERTY AND EQUIPMENT, NET

The composition of property and equipment, net is as follows:

	December 31,	
	2016	2017
Cost:		
Leasehold improvements	\$12,127	\$17,388
Computers, peripheral equipment and electronic equipment	6,693	13,856
Office furniture and equipment	2,556	3,913
	21,376	35,157
Less accumulated depreciation	12,626	18,956
Depreciated cost	\$8,750	\$16,201

Depreciation expense amounted to \$ 4,999, \$ 4,538 and \$ 5,654 for the years ended December 31, 2015, 2016 and 2017, respectively.

During 2016, the Company recorded a reduction of approximately \$ 1,908 to the cost and accumulated depreciation of fully depreciated equipment no longer in use, following an assessment made by the Company. In 2017 the company did not record any such reduction.



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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 7:- INTANGIBLE ASSETS, NET

	December 31,	
	2016	2017
Cost:		
Technology	\$5,252	\$8,275
Customer relations	-	10,667
Customer data	-	12,043
Domain	-	556
	5,252	31,541
Less accumulated amortization	1,536	4,289
Intangible assets, net	\$3,716	\$27,252

Estimated amortization expense for the years ended:

	December 31, 2017
2018	\$2,784
2019	2,929
2020	2,878
2021	2,604
Thereafter	16,057
	\$27,252

Amortization expense amounted to \$ 636, \$ 747 and \$ 2,753 for the years ended December 31, 2015, 2016 and 2017, respectively.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 8:- ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	December 31,	
	2016	2017
Accrued expenses	\$ 16,892	\$ 33,241
Hedging transaction liability	857	2,973
Uncertain tax positions	1,098	1,378
	\$ 18,847	\$ 37,592

## NOTE 9:- COMMITMENTS AND CONTINGENT LIABILITIES

## a. Lease commitments:

The Company and its Subsidiaries rent their facilities under various operating lease agreements, which expire through 2025. In addition, the Company leases certain motor vehicles under certain car operating lease agreement. The minimum rental payments under operating leases as of December 31, 2017, are as follows:

	Rental of premises
2018	8,960
2019	7,452
2020	6,230
2021	2,076
Thereafter	4,514
	29,232

The Company leases motor vehicles under cancelable operating lease agreements. The Company has an option to be released from this agreement, which may result in penalties in a maximum amount of \$ 235 as of December 31, 2017.

Total rent expenses for the years ended December 31, 2015, 2016 and 2017 were \$ 6,242, \$ 6,719 and \$ 9,785, respectively.

Total motor vehicle lease expenses for the years ended December 31, 2015, 2016 and 2017 were \$ 650, \$ 798 and \$ 998, respectively.

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WIX.COM LTD.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 9:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

## b. Pledges:

The Company has pledged bank deposits in the amount of \$ 514, in connection with an office lease agreement, credit cards and hedging transactions.

## c. Legal contingencies:

The Company is currently not involved in any claims or legal proceedings. The Company reviews the status of each legal matter it is involved in, from time to time, in the ordinary course of business and assesses its potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and the amount can be reasonably estimated, the Company accrues a liability for the estimated loss. These accruals are reviewed at least quarterly and adjusted to reflect the impact of negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular matter.

NOTE 10:- SHAREHOLDERS'  
EQUITY

## a. Composition of shares capital of the Company:

December 31, 2016		December 31, 2017	
Authorized	Issued and outstanding	Authorized	Issued and outstanding
Number of shares			
500,000,000	44,297,761	500,000,000	46,453,583

## b. Ordinary shares:

The ordinary shares of the Company confer on the holders thereof voting rights, rights to receive dividends and rights to participate in distribution of assets upon liquidation after all the preferred shares received their preference amount in full as detailed below.

## c. Share based payment:

In April 2007, the Company's Board of Directors adopted an Employee Shares Incentive Plan (the "2007 Plan"). Under the 2007 Plan, options may be granted to employees, officers, non-employees consultants and directors of the Company and its Subsidiaries. The 2007 plan was terminated on October 15, 2013, although option awards outstanding as of that date will continue in full force in accordance with the terms under which they were granted. In October 2013, the Company's Board of Directors adopted a new Employee Shares Incentive Plan (the "2013 Plan"). The 2013 Plan provides for the grant of options, restricted shares, RSUs, share appreciation rights, cash-based awards, dividend equivalents and other share-based awards to directors, employees, officers, consultants of the Company and its subsidiaries.





WIX.COM LTD.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 10:- SHAREHOLDERS' EQUITY (Cont.)

Under the Plans, as of December 31, 2017, an aggregate of 1,728,993 shares were still available for future grant. Each option granted under the Plan expires no later than ten years from the date of grant. The vesting period of the options is generally four years, unless the Board of Directors or the Board's Compensation Committee determines otherwise. Any option which is forfeited or cancelled before expiration becomes available for future grants.

The total share-based compensation expense related to all of the Company's equity-based awards, which include options, RSUs and employee stock purchase rights issued pursuant to our Employee Share Purchase Plan ("ESPP") and recognized for the years ended December 31, 2015, 2016 and 2017 was comprised as follows:

	Year ended December 31,		
	2015	2016	2017
Cost of revenues	\$1,370	\$1,798	\$2,930
Research and development	9,234	14,543	26,227
Sales and marketing	3,077	4,553	6,585
General and administrative	5,069	7,154	11,958
Total share-based compensation expense	\$18,750	\$28,048	\$47,700

Total unrecognized compensation cost amounted to 128,128 (thousands) as of December 31, 2017, and is expected to be recognized over a weighted average period of approximately 2.94 years.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 10:- SHAREHOLDERS' EQUITY (Cont.)

## d. Options granted to employees:

A summary of the activity in options granted to employees for the year ended December 31, 2017 is as follows:

	Number of options	Weighted average exercise price	Weighted average remaining contractual term (in years)	Aggregate intrinsic value
Balance as of December 31, 2016	8,367,594	\$ 9.76	6.67	\$ 291,093
Granted	1,290,423	\$ 54.02		
Exercised	(1,374,433)	\$ 9.08		
Forfeited	(85,430 )	\$ 28.15		
Balance as of December 31, 2017	8,198,154	\$ 16.65	6.27	\$ 337,517
Exercisable as of December 31, 2017	5,135,115	\$ 9.67	5.39	\$ 245,834
Vested and expected to vest as of December 31, 2017	8,054,816	\$ 16.36	6.23	\$ 333,867

The computation of expected volatility is based on actual historical share price volatility of comparable companies and the Company's share price. The expected option term represents the period of time that options granted are expected to be outstanding. For stock-option awards which were at the money when granted (plain vanilla stock-options), it is determined based on the simplified method in accordance with SAB No. 110, as adequate historical experience is not available to provide a reasonable estimate. The simplified method will continue to apply until enough historical experience is available to provide a reasonable estimate of the expected term. For stock-option awards which were in the money when granted, a binomial model was used to determine the expected term as an input to the Black-Scholes-Merton option pricing model. For restricted stock units the fair value is based on the closing market value of the underlying shares at the date of grant. The Company has historically not paid dividends and has no foreseeable plans to pay dividends and, therefore, uses an expected dividend yield of zero in the option pricing model.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 10:- SHAREHOLDERS' EQUITY (Cont.)

The risk-free interest rate is based on the yield of U.S. treasury bonds with equivalent terms.

The following table set forth the parameters used in computation of the options compensation to employees for the years ended December 31, 2015, 2016 and 2017:

	Year ended December 31,		
	2015	2016	2017
Expected volatility	53.9%-61.6%	49.6%-54.0%	45.46%-48.04%
Expected dividends	0 %	0 %	0 %
Expected term (in years)	5.5-7.1	5 -6.32	5.03 -7.07
Risk free rate	1.5%-1.9 %	1.15%-2.26 %	1.82%-2.27 %

The following table set forth the parameters used in computation of the employee stock purchase plan for the years ended December 31, 2015, 2016 and 2017:

	Year ended December 31,		
	2015	2016	2017
Expected volatility	41.9%-55.3%	44.6%-45.8%	33.6%-43.4%
Expected dividends	0 %	0 %	0 %
Expected term (in years)	0.5	0.5	0.5
Risk free rate	0.05%-0.08 %	0.26%-0.46 %	0.47%-0.79 %

A summary of options data for the years ended December 31, 2015, 2016 and 2017, is as follows:

	Year ended December 31,		
	2015	2016	2017
Weighted-average grant date fair value of options granted	\$10.33	\$9.02	\$27.50
Total intrinsic value of the options exercised	\$30,356	\$64,062	\$75,763
Total fair value of shares vested	\$17,147	\$18,602	\$20,780

The aggregate intrinsic value is calculated as the difference between the per-share exercise price and the deemed fair value of the Company's ordinary share for each share subject to an option multiplied by the number of shares subject to options at the date of exercise.

WIX.COM LTD.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 10:- SHAREHOLDERS' EQUITY (Cont.)

The following tables summarize information about the Company's outstanding and exercisable options granted to employees as of December 31, 2017:

Exercise price (Range)	Options outstanding as of December 31, 2017	Weighted average remaining contractual term (years)	Options exercisable as of December 31, 2017	Weighted average remaining contractual term (years)
0.001-1.05	3,068,388	4.28	2,359,457	3.88
1.05-5.8	190,558	4.87	186,245	4.86
5.8-10.12	757,552	5.54	732,451	5.54
10.12-18.61	452,982	6.47	360,327	6.40
18.61-22.79	2,175,729	7.57	1,150,622	7.46
22.79-28.14	177,810	6.28	156,094	6.23
28.15-31.54	65,752	8.58	30,741	8.63
31.54-46.48	51,147	8.93	17,168	9.11
46.48-52.95	1,037,186	9.13	127,989	9.13
52.95-76.85	221,050	9.64	10,021	9.61
	8,198,154	6.27	5,131,115	5.39

WIX.COM LTD.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 10:- SHAREHOLDERS' EQUITY (Cont.)

## a. Options granted to non-employees consultants:

The following table summarizes information about the Company's outstanding and exercisable options to purchase ordinary shares granted to non-employees consultants as of December 31, 2017:

Grant date	Options outstanding as of December 31, 2017	Exercise price	Exercisable as of December 31, 2017	Exercisable Through
January 25, 2011	10,000	0.67	10,000	January 25, 2021
January 9, 2013	4,400	2.34	4,400	January 9, 2023
	14,400		14,400	

No options were granted to non-employees during the years ended December 31, 2017, 2016 and 2015.

## b. A summary of RSU activity for the year ended December 31, 2017, is as follows:

	Number of shares	Weighted average grant date fair value Per Share
Unvested as of December 31, 2016	1,368,050	\$ 25.44
Granted	1,375,774	\$ 63.45
Vested	(536,240 )	\$ 28.87
Forfeited	(125,938 )	\$ 42.79
Unvested as of December 31, 2017	2,080,126	\$ 48.62

WIX.COM LTD.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 11:- INCOME TAXES

The Company's subsidiaries are separately taxed under the domestic tax laws of the jurisdiction of incorporation of each entity.

## a. Corporate tax in Israel:

Israeli companies are generally subject to corporate tax on their taxable income. As of 2017, the corporate tax rate is 24% (in 2015 and 2016, the corporate tax rate was 26.5% and 25% respectively). In December 2016, the Israeli Parliament approved the Economic Efficiency Law (Legislative Amendments for Applying the Economic Policy for the 2017 and 2018 Budget Years), 2016 which reduces the corporate income tax rate to 24% (instead of 25%) effective from January 1, 2017 and to 23% effective from January 1, 2018.

However, the effective tax rate payable by a company that qualifies as an Industrial Company that derives income from an Approved Enterprise, a Beneficiary Enterprise or a Preferred Enterprise (as discussed below) may be considerably less. Capital gains derived by an Israeli company are subject to the prevailing corporate tax rate.

## b. Loss before taxes on income is comprised as follows:

	Year ended December 31,		
	2015	2016	2017
Domestic	\$(57,316)	\$(60,249)	\$(53,432)
Foreign	8,747	16,460	(1,518 )
Loss before taxes on income	\$(48,569)	\$(43,789)	\$(54,950)

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WIX.COM LTD.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 11:- INCOME TAXES (Cont.)

## c. Deferred income taxes:

Deferred taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts recorded for tax purposes. Significant components of the Company's deferred tax assets and liabilities are as follows:

	Year ended December 31,	
	2016	2017
Deferred tax assets:		
Net operating loss carry-forwards	\$23,750	\$34,234
Capital losses carry-forwards	58	35
Research and development expenses	19,818	13,923
Tax credit carry-forwards	63	94
Depreciation difference	1,163	1,434
Accrued employees costs	1,122	1,801
Other	731	567
Deferred tax assets before valuation allowance	46,705	52,088
Valuation allowance	(46,521)	(45,094)
Deferred tax asset, net	\$184	\$6,994
Deferred tax liabilities:		
Fixed assets	\$9	\$481
Intangible assets	625	6,214
Other	-	278
Deferred tax liabilities	\$634	\$6,973

Deferred taxes are included in the consolidated balance sheets, as follows:

	Year ended December 31,	
	2016	2017
Long term receivables	\$184	\$772
Long term liabilities	\$634	\$764



The Company has provided valuation allowances in respect of certain deferred tax assets resulting from tax loss carry-forwards and other reserves and allowances due to its history of losses and uncertainty concerning realization of these deferred tax assets. In addition, a deferred tax liability has been established to reflect the Company's tax depreciation of property and equipment, net which differs from depreciation recorded in the consolidated financial statements and purchased technology as part of business combination.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 11:- INCOME TAXES (Cont.)

d. Income taxes are comprised as follows:

	Year ended December 31,		
	2015	2016	2017
Current	\$2,872	\$3,424	\$4,042
Deferred	(107 )	(317 )	(2,719)
	\$2,765	\$3,107	\$1,323
	Year ended December 31,		
	2015	2016	2017
Domestic	\$264	\$49	\$578
Foreign	2,501	3,058	745
	\$2,765	\$3,107	\$1,323

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WIX.COM LTD.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 11:- INCOME TAXES (Cont.)

e. A reconciliation of the Company's theoretical income tax expense to actual income tax expense as follows:

	Year ended					
	December 31,		2016		2017	
	2015		2016		2017	
Loss before taxes on income	\$(48,569)		\$(43,789)		\$(54,950)	
Statutory tax rate	26.5	%	25	%	24	%
Theoretical income tax expense	(12,871)		(10,947)		(13,188)	
Deferred taxes for which valuation allowance was provided, net	8,571		8,620		2,122	
Non-deductible option expenses	4,969		5,224		8,528	
Non-deductible expenses	532		815		1,263	
Tax adjustment in respect of different tax rate of foreign subsidiary	524		(1,015 )		(1,679 )	
Utilization of loss	327		-		-	
Rate Change Impact	-		-		3,099	
Foregin Tax	-		-		881	
Other	713		410		297	
Income tax expense	\$2,765		\$3,107		\$1,323	

## f. Net operating loss carry-forwards

As of December 31, 2017, the Company had carry-forward operating and capital tax losses totaling approximately \$ 161,855 and \$ 151, respectively. \$121,542 and \$151 attributed to Israel and can be carried forward indefinitely.

## g. The Law for the Encouragement of Capital Investments, 1959 (the "Law"):

On April 1, 2005, an amendment to the Investment Law came into effect ("the Amendment") and has significantly changed the provisions of the Investment Law. The Amendment limits the scope of enterprises which may be approved by the Investment Center by setting criteria for the approval of a facility as an Approved Enterprise, such as provisions generally requiring that at least 25% of the Approved Enterprise's income will be derived from export. Additionally, the Amendment enacted major changes in the manner in which tax benefits are awarded under the Investment Law so that companies no longer require Investment Center approval in order to qualify for tax benefits.

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WIX.COM LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 11:- INCOME TAXES (Cont.)

According to the law, the Company is entitled to various tax benefits by virtue of the "Beneficiary Enterprise" status granted to part of its enterprises, defined by this law.

During 2010, the Company had applied by Tax Pre-ruling to the Israeli Tax Authorities ("ITA") to receive "Beneficiary Enterprise" status and elect 2009 as year of election. During 2011, the Company received a tax decision from the ITA that approves its request for "Beneficiary Enterprise" status and the Company elect 2009 as its year of election. Under the Investment Law and its Amendment and according to the tax decision, the Company is entitled to various tax benefits, defined by this law, under the "Alternative Benefits" track as a Beneficiary Enterprise.

Pursuant to the beneficiary program, the Company is entitled to a tax benefit period of seven to ten years on income derived from this program as follows: the Company is fully tax exempted for a period of the first two years and for the remaining five to eight subsequent years is subject to tax at a rate of 10% - 25% (based on the percentage of foreign ownership of the Company).

The duration of tax benefits is subject to a limitation of the earlier of 7 years from the Commencement Year, or 12 years from the first day of the Year of Election.

If dividends are distributed out of tax exempt profits, the Company will then become liable for tax at the rate applicable to its profits from the Beneficiary enterprise in the year in which the income was earned, as if it had not chosen the alternative track of benefits.

The dividend recipient is subject to withholding tax at the rate of 15% applicable to dividends from Beneficiary enterprises, if the dividend is distributed during the tax benefits period or within twelve years thereafter. This limitation does not apply to a foreign investors' company. The Company currently has no plans to distribute dividends and intends to retain future earnings to finance the development of its business.

The above benefits are conditioned upon the fulfillment of the conditions stipulated by the law and regulations published thereunder. In the event of failure to comply with these conditions, the benefits may be canceled and the Company may be required to refund the amount of the benefits, in whole or in part, including interest and linked to changes in the Israeli CPI.

Management believes that the Company will meet the aforementioned conditions by the year of the elected operations.

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WIX.COM LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 11:- INCOME TAXES (Cont.)

As a result of the amendment, tax-exempt income generated under the provisions of the new law will subject the Company to taxes upon distribution or liquidation and the Company may be required to record a deferred tax liability with respect to such tax-exempt income.

Through December 31, 2017 the Company had not generated income under the provision of the new law.

In December 2010, the Israeli Parliament passed the Law for Economic Policy for 2011 and 2012 (Amended Legislation), 2011, which prescribes, among other things, amendments to the Investment Law, effective as of January 1, 2011. According to the amendment, the benefit tracks under the Investment Law were modified and a uniform tax rate will apply to all of the income of an approved or beneficiary enterprise. Companies may elect to irrevocably implement the amendment (while waiving benefits provided under the Investment Law as currently in effect) and subsequently would be subject to the amended tax rates that are: 2011 and 2012 - 15%, 2013 and 2014 - 12.5% and in 2015 and thereafter - 12%.

In December 2016, the Economic Efficiency Law (Legislative Amendments for Applying the Economic Policy for the 2017 and 2018 Budget Years), 2016 which includes Amendment 73 to the Law ("Amendment 73") was published. According to Amendment 73, a preferred enterprise located in development area A will be subject to a tax rate of 7.5% instead of 9% effective from January 1, 2017 and thereafter (the tax rate applicable to preferred enterprises located in other areas remains at 16%).

The new tax tracks under the Amendment are as follows: Technological preferred enterprise - an enterprise for which total consolidated revenues of its parent company and all subsidiaries are less than NIS 10 billion. A technological preferred enterprise, as defined in the Law, which is located in the center of Israel will be subject to tax at a rate of 12% on profits deriving from intellectual property (in development area A - a tax rate of 7.5%).

The Amendment also prescribes special tax tracks for technological enterprises, which are subject to regulations that were published by the Minister of Finance on May 1, 2017.

Under the transition provisions of the new legislation, the Company may decide to irrevocably implement the new law while waiving benefits provided under the current law or to remain subject to the current law.

The Company does not currently intend to implement the amendment, and intends to continue to comply with the Investment Law as in effect prior to enactment of the amendment.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 11:- INCOME TAXES (Cont.)

The Tax Cuts and Jobs Act (the "Act") was enacted on December 22, 2017. The Act reduces the US federal corporate tax rate from 35% to 21% in 2018, repealed the corporate alternative minimum tax, and requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred and creates new taxes on certain foreign-sourced earnings.

Deferred tax assets and liabilities: We remeasured all U.S. deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future, which is generally 21%. However, we are still analyzing certain aspects of the Act and refining our calculations, which could potentially affect the measurement of these balances or potentially give rise to new deferred tax amounts.

The estimated tax expense recorded related to the re-measurement of the deferred tax balance was \$(721).

## h. Tax assessments:

The Company and its subsidiaries did not have any final tax assessments as of December 31, 2017. The Company's tax years until December 31, 2012 are subject to statutes of limitation as of December 31, 2017.

## i. Uncertain tax positions:

A reconciliation of the opening and closing amounts of total unrecognized tax benefits is as follows:

	Year ended December 31,	
	2016	2017
Opening balance	\$1,098	\$1,098
Increases related to previous year tax positions	-	280
Closing balance	\$1,098	\$1,378

During the years ended December 31, 2017 the Company recorded \$ 280 for interest expense related to uncertain tax positions. As of December 31, 2017 the Company had accrued interest liability related to uncertain tax positions in the amounts of \$ 280, which is included within income tax accrual on the balance sheets. The Company did not accrue penalties during the years ended December 31, 2017 and 2016.

The balance of total unrecognized tax benefits at December 31, 2017, is \$ 1,378 which, if potentially recognized, would affect the effective rate in the Company's statement of comprehensive loss.

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WIX.COM LTD.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 12:- FINANCIAL INCOME (EXPENSES), NET

	Year ended December 31,		
	2015	2016	2017
Bank charges	\$(168 )	\$(226 )	\$(310 )
Income (expense) related to hedging activity	2,085	748	(7,101)
Exchange rate income (loss)	(2,082)	(1,122)	1,214
Total income (expenses)	(165 )	(600 )	(6,197)
Interest income	242	847	1,182
Total financial income (expenses), net	\$77	\$247	\$(5,015)

## NOTE 13:- BASIC AND DILUTED NET LOSS PER SHARE

	Year ended December 31,		
	2015	2016	2017
Net loss available to shareholders of ordinary shares	\$(51,334 )	\$(46,896 )	\$(56,273 )
Denominator:			
Shares used in computing net loss per ordinary shares, basic and diluted	39,408,928	42,032,818	45,552,199

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WIX.COM LTD.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 13:- BASIC AND DILUTED NET LOSS PER SHARE (Cont.)

The following table summarizes the reconciliation of the basic weighted average number of shares outstanding and the diluted weighted average number of shares outstanding.

	Year ended December 31,		
	2015	2016	2017
Shares used in computing net loss per ordinary shares, basic and diluted	39,408,928	42,032,818	45,552,199
The following items have been excluded from the diluted weighted average number of shares outstanding because they are anti-dilutive:			
Stock options	10,738,276	8,405,787	8,212,554
Restricted share units	732,634	1,368,050	2,081,646
	11,470,910	9,773,837	10,294,200

## NOTE 14:- SEGMENTS, CUSTOMERS AND GEOGRAPHIC INFORMATION

a. The Company applies ASC topic 280, "Segment Reporting", ("ASC No. 280"). The Company operates in one reportable segment. Total revenues are attributed to geographic areas based on the location of the end customer.

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WIX.COM LTD.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTE 14:- SEGMENTS, CUSTOMERS AND GEOGRAPHIC INFORMATION (cont.)

The following tables present total revenues for the years ended December 31, 2015, 2016 and 2017 and long-lived assets as of December 31, 2016 and 2017:

Revenues:

	Year ended December 31,		
	2015	2016	2017
North America (*)	\$ 102,603	\$ 147,209	\$ 220,124
Europe	55,311	77,465	110,419
Latin America	19,134	25,904	36,816
Asia and others	26,470	39,524	58,277
	\$ 203,518	\$ 290,103	\$ 425,636

(\*) Include revenue from USA in amount of 91,661, 131,796 and 192,153 for 2015, 2016 and 2017 respectively.

Long-lived assets:

	December 31,	
	2016	2017
Israel	\$ 7,090	\$ 12,326
Europe	248	613
North America	1,412	3,262
	\$ 8,750	\$ 16,201

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