

ONLINE MEDIA SOLUTIONS LTD. AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AS OF MARCH 31, 2016

U.S. DOLLARS IN THOUSANDS

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REPORT OF INDEPENDENT AUDITORS

To the Shareholders of

ONLINE MEDIA SOLUTIONS LTD. AND ITS SUBSIDIARIES

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

We conducted our audits in accordance with auditing standards generally accepted in Israel including those prescribed by the Auditors' Regulations (Auditor's Mode of Performance), 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the board of directors and management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of March 31, 2016 and 2015, and the consolidated results of their operations and the consolidated cash flows for the years then ended, in conformity with United States generally accepted accounting principles.

Tel-Aviv
July 3, 2016

KOST FORER GABBAY & KASIERER
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ONLINE MEDIA SOLUTIONS LTD. AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	March 31,	
	2016	2015
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 6,408	\$ 5,557
Restricted cash	522	519
Trade receivables	28,126	20,494
Current maturities of a related party loans	1,936	3,066
Other accounts receivable and prepaid expenses (Note 5)	1,703	1,697
<u>Total current assets</u>	<u>38,695</u>	<u>31,333</u>
LONG-TERM ASSETS:		
Long-term deferred Tax	-	16
Long-term lease deposits	4	5
Loans to a related party (Note 6)	2,516	2,516
Long-term loan	3,639	150
Marketable securities (Note 4)	350	116
Investments in Affiliates (Note 7)	11,492	868
Severance pay fund	319	649
Property and equipment, net (Note 8)	302	352
Software development costs (Note 9)	3,069	10,123
Intangible assets, net (Note 10)	8,976	95
<u>Total long-term assets</u>	<u>30,667</u>	<u>14,890</u>
<u>Total assets</u>	<u>\$ 69,362</u>	<u>\$ 46,223</u>

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



ONLINE MEDIA SOLUTIONS LTD. AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	March 31,	
	2016	2015
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Trade payables	\$ 2,742	\$ 1,032
Employees and payroll accruals	203	382
Other accounts payable and accrued expenses (Note 11)	1,487	5,206
<u>Total current liabilities</u>	<u>4,432</u>	<u>6,620</u>
LONG-TERM LIABILITIES:		
Accrued severance pay	712	712
Deferred tax liability, net	501	501
<u>Total long term liabilities</u>	<u>1,213</u>	<u>1,213</u>
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY (Note 13):		
Ordinary shares	38	38
Accumulated other comprehensive income	-	-
Additional paid-in capital	6,331	6,331
Retained earnings	57,348	32,021
<u>Total equity</u>	<u>63,717</u>	<u>38,390</u>
<u>Total liabilities and equity</u>	<u>\$ 69,362</u>	<u>\$ 46,223</u>

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

<p>July 3, 2016</p> <hr/> <p>Date of approval of the financial statements</p>	 <hr/> <p>Shahar Shaharabany Chief Financial Officer</p>	 <hr/> <p>Jacob Mizri Director and Chief Executive Officer</p>
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ONLINE MEDIA SOLUTIONS LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

U.S. dollars in thousands

	Year ended March 31,	
	2016	2015
Revenues	\$ 120,547	\$ 92,841
Cost of revenues	65,802	47,294
Gross profit	54,745	45,547
Operating expenses:		
Research and development cost amortization	2,140	1,808
Sales and marketing	8,256	7,559
General and administrative	9,801	10,334
<u>Total operating expenses</u>	<u>20,197</u>	<u>19,701</u>
Operating income	34,548	25,846
Financial loss, net	-	(162)
Capital loss	(90)	-
Income before taxes on income	34,458	25,684
Income tax (expenses) benefit (Note 12)	(9,131)	(6,850)
Equity gain of affiliated companies	-	165
Comprehensive income	25,327	18,999
Net expense (income) attributable to non-controlling interests	-	-
Net income attributed to Online Media Solutions Shareholders	\$ 25,327	\$ 18,999
Change in unrealized gains on marketable securities	-	-
Comprehensive income	<u>\$ 25,327</u>	<u>\$ 18,999</u>

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

ONLINE MEDIA SOLUTIONS LTD. AND ITS SUBSIDIARIES

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

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

	Ordinary shares		Addition paid-in capital	Change in unrealized gains on marketable securities	Retained earnings	Non- Controlling interests	Total shareholders' equity
	Number	Amount					
Balance as of April 1, 2014	14,294,123	\$ 38	\$ 6,331	\$ -	\$ 12,905	\$ 117	\$ 19,391
Non-controlling interest as part of sale of acquisition	-	-	-	-	-	-	-
Net income	-	-	-	-	19,116	(117)	18,999
Balance as of March 31, 2015	14,294,123	38	6,331	-	32,021	-	38,390
Comprehensive income	-	-	-	-	-	-	-
Net income	-	-	-	-	25,327	-	25,327
Balance as of March 31, 2016	14,294,123	\$ 38	\$ 6,331	\$ -	\$ 57,348	\$ -	\$ 63,717

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

ONLINE MEDIA SOLUTIONS LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended March 31,	
	2016	2015
<u>Cash flows from operating activities:</u>		
Net income	\$ 25,327	\$ 25,850
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,380	137
(Increase) decrease in trade receivables	(7,632)	(3,016)
Decrease in other accounts receivable and prepaid expenses	889	3,696
Decrease (increase) in deferred taxes liability, net	16	-
Decrease in trade payables	1,710	(4,960)
(Decrease) increase in employees and payroll accruals	(179)	-
Decrease in other accounts payable	(3,719)	(8,106)
Decrease in accrued severance pay fund, net	330	-
Equity gains of affiliated companies	-	-
Interest on long-term loan	-	-
Capital loss	-	(334)
Net cash provided by operating activities	<u>18,122</u>	<u>13,267</u>
<u>Cash flows from investing activities:</u>		
Purchase of property and equipment	(87)	(59)
Proceeds from long-term lease deposits, net	1	-
Loan provided to a related party	-	-
Proceeds from (investment in) restricted cash	(3)	(4)
Capitalization of software development costs	(3,069)	(10,218)
Loan provided to a third party	(3,489)	(122)
Investment in affiliate	(10,624)	576
Deconsolidation of investment in a subsidiary as a result of an decrease in holdings net of cash acquired (Schedule a)	-	-
Net cash used in investing activities	<u>(17,271)</u>	<u>(9,827)</u>
Effect of exchange rate changes on restricted cash and marketable securities	-	37
Decrease in cash and cash equivalents	851	3,477
Cash and cash equivalents at the beginning of the year	<u>5,557</u>	<u>2,080</u>
Cash and cash equivalents at the end of the year	<u>\$ 6,408</u>	<u>\$ 5,557</u>

ONLINE MEDIA SOLUTIONS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 1:- GENERAL

- a. Online Media Solutions Ltd. ("the Company") was incorporated under the laws of the State of Israel, and commenced operations in 1998. The Company provides full service of performance-driven ad-serving technology and quality media. The Company is a wholly owned subsidiary of Lycos Internet Limited (formerly Ybrant Digital Limited) (the "Parent" or "Lycos"), a public company traded on Bombay Stock Exchange under the ticker LYCO.
- b. The Company and its subsidiaries (together the "Group"), Oridian Inc., Ybrant Digital GmbH, Brightcom Asia Pte. Ltd., and Ybrant Digital France provide complete online media solutions to advertisers and publishers worldwide. During 2011 Ybrant Digital France ceased its operational activity. During 2013 Ybrant Digital GMBH ceased its operational activity.

The Company holds certain shares in certain affiliates companies (see Note 7).

- c. In October, 2012, the Company purchased shares of an Israeli company (Positive Mobile Holdings - "PM") which provides advertisements on mobile phones. As of March 31, 2013 the Company held 41% of PM's shares and maintains control over PM and therefore, the Company consolidates PM from the purchase date. The Company paid a cash purchase price of \$ 104 (before cash assumed).
- d. On September 19, 2014, the Company established a fully owned Company in Singapore, Brightcom Asia Pte. Ltd. ("Brightcom"), which started its activity in April 2015.
- e. The Company has an alliance with major third parties interactive software program vendors. For the year ended March 31, 2015, a single vendor represented approximately 10% of the Company's cost of revenue. For the year ended March 31, 2016, there are no significant vendors.
- f. Definitions:

Lycos Internet Limited (formerly: Ybrant Digital Limited) (formerly: Ybrant Technologies Limited) ("Lycos" or "Parent") - is a related party.

Subsidiaries of the Parent are related parties and referred to as "Affiliates".

The Company held certain investments in affiliates in different geographical locations and presents them as investments.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

The financial statements are prepared according to United States generally accepted accounting principles ("U.S. GAAP").

a. Use of estimates:

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates, judgments and assumptions. The Company's management believes that the estimates, judgments 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 financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

b. Financial statements in U.S. dollars:

A substantial portion of the Company's and its non-U.S. subsidiaries' revenues are generated in U.S. dollar ("dollars"). In addition, most of the Company's and its subsidiaries' costs are incurred in dollars. The Company's management believes that the U.S. dollar is the currency of the primary economic environment in which the Company and its subsidiaries operate. Thus, the functional and reporting currency of the Company and its subsidiaries is the U.S. dollar.

The Company's transactions and balances denominated in U.S. dollars are presented at their original amounts. Non-dollar transactions and balances have been remeasured into U.S. dollars in accordance with ASC 830. All transaction gains and losses from remeasurement of monetary balance sheet items denominated in non-dollar currencies are reflected in the statement of operations as financial income or expenses, as appropriate.

c. Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its subsidiaries. Intercompany transactions and balances, including profits from intercompany sales not yet realized outside the Group, have been eliminated upon consolidation. Non-controlling interests of subsidiaries represent the non-controlling shareholders share of the total comprehensive income of the subsidiaries and fair value of the net assets upon the acquisition of the subsidiaries. The non-controlling interests are presented in equity separately from the equity attributable to the equity holders of the Company.

d. Cash equivalents:

Cash equivalents are short-term highly liquid investments that are readily convertible to cash with original maturities of three months or less.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

e. Investments in marketable securities:

The Company accounts for investments in equity marketable securities in accordance with ASC 320, "Investments - Debt and Equity Securities".

Management determines the appropriate classification of its investments at the time of purchase and reevaluates such determinations at each balance sheet date.

The Company classifies its securities as available-for-sale. Available-for-sale securities are carried at fair value, with the unrealized gains and losses net of taxes, reported in accumulated other comprehensive income (loss) in shareholders' equity. Gains and losses are recognized when realized, on a specific identification basis, in the Company's consolidated statements of operations.

For equity securities, an entity is required to recognize in earnings all declines in fair value below the cost basis that are considered other than temporary. However, if the entity evaluates that the impairment is no other-than-temporary but does not have the intent and ability to hold the equity security until the anticipated recovery of its cost basis, an impairment loss is recognized in earnings.

The Company reviews various factors in determining whether it should recognize an impairment charge for its marketable securities, including its intent and ability to hold the investment for a period of time sufficient for any anticipated recovery in market value, the length of time and extent to which the fair value has been less than its cost basis, the credit ratings of the securities and the financial condition and near-term prospects of the issuer.

f. Restricted cash:

Restricted cash is primarily invested in highly liquid deposits, which are pledged in favor of the banks which provide to the Company guarantees with respect to office lease agreements, credit card and financial instrument transactions.

g. Long-term lease deposits

Long-term deposits include long-term deposits for motor vehicles under operating leases, presented at their cost.

ONLINE MEDIA SOLUTIONS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

h. Property and equipment:

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

	%
Computers and peripheral equipment	33
Office furniture and equipment	7- 15
Leasehold improvements	Over the term of the lease

i. Software development costs

According to the principles set forth in ASC 350-40, "Internal use software", the Company distinguishes between software development costs incurred in the different stages.

Costs incurred during the process of preliminary project stage are charged to expenses as incurred.

Costs incurred during the process of application development stage are capitalized. Costs incurred during the process of post implementation-operation stage are charged to expense as incurred.

The costs of computer software developed or obtained for internal use are amortized on a straight-line basis unless another systematic and rational basis is more representative of the software's use. Amortization has begun when the computer software was ready for its intended use which is usually after a period of 6 months.

Amortization costs amounted to \$4,775 and \$3,451 for the year ended March 31, 2016 and 2015, respectively.

The Company assesses the probability of the development, completion and the potential of these capitalized costs on a regular basis by determining whether the amortization of the asset over its remaining life can be recovered through undiscounted future operating cash flows from the specific software product used. During the years ended March 31, 2016 and 2015, no impairment to the capitalized costs were identified

j. Impairment of long-lived assets and intangible assets:

The Company's long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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.

No impairment losses for the years ended March 31, 2016 and 2015 were identified.

k. Income taxes:

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

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

ASC 740 contains a two-step approach to recognizing and measuring a liability for uncertain tax positions. The first step is to evaluate the tax position taken or expected to be taken in a tax return by determining if the weight of available evidence indicates that it is more likely than not that, on an evaluation of the technical merits, the tax position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% (cumulative basis) likely to be realized upon ultimate settlement. The Company has some measurement differences in amounts that need to be credit from revenue.

l. Revenue recognition:

The Company generates revenues from advertising services.

Revenues are recognized in accordance with ASC 605 ("Revenue Recognition"), upon execution of advertisements campaigns, when persuasive evidence of an arrangement exists, fee is fixed or determinable, and when collectability is probable. If one of the above criteria is not met, revenue is recognized on a cash basis.

The Company records revenues based on the gross amount collected from its customers and pays third parties a fee for providing advertising space.

ONLINE MEDIA SOLUTIONS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

m. Concentrations of credit risks:

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash, cash equivalents, restricted cash, marketable securities and trade receivables.

Cash, cash equivalents and restricted cash are invested in major banks in Israel and the United States. Such deposits in the United States may be in excess of insured limits and are not insured in other jurisdictions. Generally these deposits may be redeemed upon demand and, therefore, bear low risk.

The Company's marketable securities include investments in equity. The Company's investment policy limits the amount the Company may invest in any one type of issuer, thereby reducing credit risk concentrations. In addition, the policy establishes minimum credit ratings for all types of securities.

The Company's trade receivables are derived from sales to worldwide customers. The Company performs ongoing credit evaluations of its customers.

As of March 31, 2016, the Company has no off-balance sheet concentration such as, foreign exchange contracts, option contracts or other foreign hedging arrangements.

n. Severance pay:

The Company's liability for severance pay for its Israeli employees is calculated pursuant to Israel's Severance Pay Law based on the most recent salary of the employees multiplied by the number of years of employment, as of the balance sheet date. Israeli employees are entitled to severance equal to one month's salary for each year of employment or a portion thereof. The Company's liability for its Israeli employees, not under section 14 discussed below, is partially provided by monthly deposits with insurance policies and by an accrual. The value of these policies is recorded as an asset in the Company's balance sheet.

The deposited funds include profits accumulated up to the balance sheet date and may be withdrawn only upon the fulfillment of the obligation pursuant to Israel's Severance Pay Law or labor agreements. The value of the deposited funds is based on the cash surrendered value of these policies, and includes immaterial profits.

Some of the Company's Israeli employees are under section 14 of the Severance Compensation Act, 1963 ("Section 14"). Pursuant to Section 14, employees included under this section, are entitled only to monthly deposits, at a rate of 8.33% of their monthly salary, made in the employee's name with insurance companies. Payments in accordance with Section 14 release the Company from any future severance payments in respect of those employees. The fund is made available to the employee at the time the employer-employee relationship is terminated, regardless of cause of termination. The

ONLINE MEDIA SOLUTIONS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

severance pay liabilities and deposits under section 14 are not reflected in the balance sheet as the severance pay risks have been irrevocably transferred to the severance funds.

Severance pay expenses amounted to \$ 41 and \$ 34 for the years ended March 31, 2016 and 2015, respectively.

o. Fair value of financial instruments:

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

The carrying amount reported in the balance sheet for cash and cash equivalents, restricted cash, trade receivables, other accounts receivable and prepaid expenses, trade payables, employees and payroll accruals and other accounts payable and accrued expenses approximate their fair value due to the short-term maturities of such instruments.

The Company applied ASC 820 "Fair Value Measurements and Disclosures" which clarifies that 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.

As a basis for considering such assumptions, ASC 820 establishes a three-tier value hierarchy, which prioritizes the 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, other than quoted prices within Level 1, 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.

p. Investment in affiliate:

Investment in a company in which the Company is able to exercise significant influence, but that is not a consolidated subsidiary is accounted for using the equity method in accordance with ASC 323, "Investments - Equity Method and Joint Ventures".

ONLINE MEDIA SOLUTIONS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company accounts for its investment in an affiliate in which the Company holds less than 20%, using the cost method in accordance with ASC 325-20 "Cost Method Investment" since the Company does not have the ability to exercise significant influence over operating and financial policies of this investee.

The Company's investment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the investment may not be recoverable. During the year ended March 31, 2016 and 2015 no impairment losses were identified.

q. Comprehensive income:

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

r. Impact of recently issued accounting standards:

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers. ASU 2014-09 requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration which the entity expects to receive in exchange for those goods and services. The effective date of ASU 2014-09 is for annual reporting periods beginning after December 15, 2017. In July 2015, the FASB decided to defer by one year the effective date of this ASU. The ASU has not yet been adopted and the Company is currently evaluating the impact that the adoption of ASU 2014-09 will have on its financial statements.

In 2014, the FASB issued ASU 15-2014, Presentation of Financial Statements-Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern, which defines management's responsibility to assess an entity's ability to continue as a going concern, and to provide related footnote disclosures if there is substantial doubt about its ability to continue as a going concern. The pronouncement is effective for annual reporting periods ending after December 15, 2016 with early adoption permitted. The Company is currently evaluating the effect, if any, that the adoption of this guidance will have on its consolidated financial statements.

ONLINE MEDIA SOLUTIONS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

In November 2015, the FASB issued ASU No. 2015-17 related to balance sheet classification of deferred taxes. The new guidance requires that deferred tax assets and liabilities be classified as noncurrent in a classified statement of financial position. The new guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted. The Company is in the process of evaluating the impact of this new guidance.

In February 2016, the FASB issued ASU 2016-02 - Leases (ASC 842), which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The ASU is expected to impact our consolidated financial statements as we have certain operating lease arrangements. ASC 842 supersedes the previous leases standard, ASC 840 Leases. The standard is effective on January 1, 2019, with early adoption permitted. The Company is in the process of evaluating the impact of this new guidance.

NOTE 3:- TRANSACTIONS WITH RELATED PARTIES AND AFFILIATES

Certain of the Company's revenues are generated from its Affiliates.

The following balances with affiliates are included in the consolidated financial statements:

	March 31,	
	2016	2015
Affiliates Trade receivable	\$ 1,632	\$ 1,049
Affiliates Trade payable	\$ (1,035)	\$ (244)

The following transactions with Affiliates are included in the consolidated financial statements:

	Year ended March 31,	
	2016	2015
Revenues	\$ 629	\$ 2,581
Financial income	\$ 255	\$ 139

ONLINE MEDIA SOLUTIONS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 4:- MARKETABLE SECURITIES

The Company invests in equity marketable securities, which are classified as available-for-sale. The following is a summary of the Company's investment in marketable securities:

	March 31, 2016				March 31, 2015			
	Cost	Comprehensive income	exchange rate changes on marketable securities	Fair value	Cost	an other-than-temporary impairment	exchange rate changes on marketable securities	Fair value
Equity securities	\$ 269	\$ 65	\$ 16	\$ 350	\$ 487	\$ (334)	\$ (37)	\$ 116

NOTE 5:- OTHER ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

	March 31,	
	2016	2015
Prepaid expenses	\$ 175	\$ 613
Government authorities	452	442
Deferred Taxes	-	70
Short-term loan	-	37
Other	1,076	535
	<u>\$ 1,703</u>	<u>\$ 1,697</u>

NOTE 6:- LOANS TO A RELATED PARTY

- a. In June 2008, the Company loaned Lycos a total amount of \$ 1,000. The loan had an original maturity date of four months. The loan bears interest at a rate of LIBOR + 2.65% per annum. The LIBOR rate is adjusted every three months.

In September 2008, the Company loaned to Lycos an additional amount of \$ 500. The repayment terms of the loan are similar to those of the first loan. The loan bears interest at a rate of LIBOR + 3.25% per annum. The LIBOR rate is adjusted every three months.

In October 2008, the Company and Lycos reached an oral understanding, according to which the maturity date of the loans will be extended indefinitely.

On March 31, 2009, the Company reassigned \$ 646 of the loans to investments in affiliates.

ONLINE MEDIA SOLUTIONS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 6:- LOANS TO A RELATED PARTY (Cont.)

- b. During the year ended March 31, 2012, the Company loaned Lycos additional amounts of \$ 150, \$300 and \$23, in April 2011, December 2011 and March 2012, respectively, with maturity dates of twelve months. The loan bears interest at a rate of LIBOR + 3% per annum. The Company and Lycos reached an oral understanding, according to which the maturity date of the loans will be extended indefinitely. During 2011 and 2013, Lycos repaid \$206 out of the total loans provided as mentioned above.
- c. In November 2012, December 2012 and March 2013, the Company loaned Lycos additional amounts of \$ 150, \$125, and \$150, respectively with maturity dates of twelve months. The loans bear interest at a rate of LIBOR + 3% per annum. In May 2013 Lycos repaid the loan provided in December 2012.
- d. In the period from September 2013 through March 2014 the Company loaned Lycos additional amounts of total \$1,645, with maturity dates of twelve months. The loans bear interest at a rate of LIBOR + 3% per annum.
- e. During the year ended March 31, 2015 the Company loaned Lycos additional amounts of total \$2,516, with maturity dates of twelve months. The loans bear interest at a rate of LIBOR + 3% per annum.

NOTE 7:- INVESTMENT IN AFFILIATES

- a. In March 2009, the Company and its Parent signed an agreement to purchase 100% of the shares of five companies (out of which 10% will be purchased by the Company). On March 31, 2009, the Company and its Parent signed an agreement, according to which \$700 of the loan amounts will reflect the Company's full payment obligation under the purchase agreements, and the parent shall assume the sole responsibility to pay all amounts when due, to the sellers, under the purchase agreements, including the Company's portion.

The Company accounts for these investments in affiliates under the cost method.

ONLINE MEDIA SOLUTIONS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 7:- INVESTMENT IN AFFILIATES (Cont.)

- b. On January 20, 2010 the Company along with third parties established a new Israeli Company ("Right Ads Ltd."). The Company is the owner of 25% of the issued and outstanding shares of the Right Ads. Right Ads is engaged in developing technology tools for the Company and for others. In order to assist Right Ads Ltd., the Company provided Right Ads with a commitment for financial support up to a total aggregate assistance of \$700. Each transfer of funds by the Company will be evidenced by the issue of a capital note by Right Ads Ltd. to the Company.

The capital notes did not bear interest, and become due or expire upon the closing of an Exit Transaction (as defined in the Founders agreement).

- c. On May 17, 2010, the Company purchased 6% of the outstanding shares of an Israeli company ("Argumtech Ltd."). Argumtech Ltd. is engaged in developing a smart bidding engine for online advertising. The total amount of the investment amounted to \$ 180. Since May 2010, the Company's investments in Aargumtech Ltd. have been diluted and as of March 31, 2016, the Company holds 1.9% of the outstanding shares. Since the Company cannot exercise significant influence, this investment is presented at cost.
- d. On March 16, 2011, the Company signed an agreement to purchase all the shares of PicApp Technologies Ltd. ("PicApp Ltd.") for no consideration, with a certain earn-out payment by PicApp Ltd. to its previous shareholders according to target achievements. On April 3, 2011, the shares were transferred while the share price was not changed.

On April 4, 2011, PicApp Ltd. raised \$ 275 from several new investors and as a result the Company's holding percentage has decreased to 46.97%. During 2011 PicApp Ltd ceased its activity. As the Company has not originally invested any amounts in PicApp no impairment was deemed necessary. PicApp Ltd. is not active and is currently in the process of liquidation.

- g. On May 16, 2011, a third party established a new company in Israel, MindAd Media Ltd ("MindAd"). In June 2011, at inception of MindAd, 40% of the issued and outstanding shares of MindAd were issued to the Company for no consideration. MindAd provides mainly media optimization and search services for clients. On October 2012 a third party provided MindAd a convertible loan of NIS 300 thousand. This convertible loan bears an annual interest of 5.5% and may be converted by the third party to MindAd's shares by maturity date of October 31, 2013 or be repaid. During 2014 the convertible loan was converted to shares and the Company was diluted to 24% of the issued and outstanding shares of MindAd and recorded a loss of \$ 40 in its statement of comprehensive income. Since the Company holds 24% this investment was presented at equity. On March 31, 2015 the Company sold all its shares in MindAd for \$90.

ONLINE MEDIA SOLUTIONS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 7:- INVESTMENT IN AFFILIATES (Cont.)

- h. On July 20, 2012, Ybrant UK issued shares to an Affiliate of the Company. As a result, the Company's holding in Ybrant UK was diluted to 5% of Ybrant UK shares. Since July 20, 2012, the Company accounts for this investment (\$ 38.75) under the cost method.
- i. On August 1, 2014, The Company established together with other third parties a new company in Uruguay, Brisland S.A. The Company held (through a trustee) 10.2% of Brisland's. In February 2015 and in March 2015 the Company sold all its shares in Brisland for \$10.

During the year ended March 31, 2016 no impairment of the Company's investments in affiliates was noted and recorded.

NOTE 8:- PROPERTY AND EQUIPMENT

	March 31,	
	2016	2015
Cost:		
Computers and peripheral equipment	\$ 1,444	\$ 1,356
Office furniture and equipment	157	157
Leasehold improvements	425	425
	2,026	1,938
Accumulated depreciation:		
Computers and peripheral equipment	1,314	1,206
Office furniture and equipment	81	73
Leasehold improvements	329	307
	1,724	1,586
Depreciated cost	\$ 302	\$ 352

Depreciation expenses for the years ended March 31, 2016 and 2015 were \$138 and \$ 137, respectively.

ONLINE MEDIA SOLUTIONS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 9:- SOFTWARE DEVELOPMENT COSTS

	March 31,	
	2016	2015
Original amounts:		
Capitalized software costs	\$ 13,192	\$ 15,471
Accumulated amortization:		
Capitalized software costs	10,123	5,348
Software development costs	\$ 3,069	\$ 10,123

- a. Amortization expenses amounted to \$ 4,775 and \$ 3,451 for the years ended March 31, 2016 and 2015, respectively.
- b. The estimated future amortization expense of other intangible assets as of March 31, 2016 is as follows:

The year ended March 31, 2017	\$ 3,069
The year ended March 31, 2018	-
The year ended March 31, 2019	-
	\$ 3,069

NOTE 10:- INTANGIBLE ASSETS

During the year ended March 31, 2016 Software development cost of \$ 10,123. is capitalized as intangible assets and started amortizing.

ONLINE MEDIA SOLUTIONS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 11:- OTHER ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	March 31,	
	2016	2015
Government authorities	\$ 45	\$ 55
Accrued Expenses	454	1,171
Advances from customers	45	175
Tax provision, net	908	3,805
Withholding tax	35	-
	\$ 1,487	\$ 5,206

NOTE 12:- TAXES ON INCOME

a. Israeli taxation:

1. Tax rates applicable to the income of the Israeli Company:

Taxable income of Israeli companies is subject to tax rate of 26.5% in 2014 and 2015. On January 4, 2016, the Israeli Parliament's Plenum approved by a second and third reading the Bill for Amending the Income Tax Ordinance (No. 217) (Reduction of Corporate Tax Rate), 2015, which consists of the reduction of the corporate tax rate from 26.5% to 25%. The Company does not expect that the change in tax rates will have an impact on the Company's financial statements.

2. Tax assessments filed through 2011 tax year are considered final.

b. Non Israeli subsidiaries:

Non-Israeli subsidiaries are taxed according to the tax laws in their respective domiciles of residence. If earnings are distributed to Israel in the form of dividends or otherwise, the Company may be subject to additional Israeli income taxes (subject to an adjustment for foreign tax credits) and foreign withholding taxes. The Company's management has determined that it will not distribute any amounts of its undistributed income as a dividend. The Company intends to reinvest the amount of such income. Accordingly, no deferred income taxes have been provided on this account.

ONLINE MEDIA SOLUTIONS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 13:- SHAREHOLDERS' EQUITY

Composition of share capital:

	Authorized		Issued and outstanding	
	March 31,		March 31,	
	2016	2015	2016	2015
	Number of shares			
Shares of NIS 0.01 par value:				
Ordinary shares (1)	20,580,000	20,580,000	14,294,123	14,294,123
	20,580,000	20,580,000	14,294,123	14,294,123

- (1) The Ordinary shares confer upon the holders the right to receive notice to participate and vote in general meetings of the Company, and the right to receive dividends, if declared.

NOTE 14:- COMMITMENTS AND CONTINGENT LIABILITIES

- a. Commitments:

Lease commitments:

The Company and its subsidiaries lease their facilities under non-cancelable operating lease agreements, which expire on various dates, the latest of which is on March 31, 2019. Future minimum payments under non-cancelable operating lease agreements, as of March 31, 2016, are as follows:

Year ended March 31, 2017	\$	543	
Year ended March 31, 2018		368	
Year ended March 31, 2019		33	
	\$	944	

Rent expenses for the years ended March 31, 2016 and 2015, were \$ 381 and \$ 357, respectively.

ONLINE MEDIA SOLUTIONS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 14:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

The Company leases motor vehicle under cancelable lease agreement. The Company has an option to cancel the lease agreement, which may result in penalties in the maximum amount of \$ 9.

Car expenses for the years ended March 31, 2016 and 2015, were \$ 94 and \$ 144, respectively.

b. Guarantee:

Guarantee in the amount of approximately \$ 114 were issued by a bank to secure rent payments.
