

ONLINE MEDIA SOLUTIONS LTD. AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AS OF MARCH 31, 2017

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, 2017 and 2016, the related consolidated statements of comprehensive income, changes in shareholders' equity and the consolidated statements of cash flows for each of the two years in the period ended March 31, 2017. 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, 2017 and 2016, and the related consolidated results of their operations and cash flows for the each of the two years in the period ended March 31, 2017 in conformity with generally accepted accounting principles in the United States.

Tel-Aviv  
June 29, 2017

~~KOST FORER GABBAY & KASIERER~~  
A Member of EY Global

ONLINE MEDIA SOLUTIONS LTD. AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	March 31,	
	2017	2016
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 6,635	\$ 6,408
Restricted cash	564	522
Trade receivables, net	43,501	28,130
Current maturities of related party loans	-	1,936
Other accounts receivable and prepaid expenses (Note 5)	13,648	1,703
<u>Total</u> current assets	64,348	38,699
LONG-TERM ASSETS:		
Long-term loans	6,015	3,643
Loans to a related party (Note 6)	1,951	2,516
Marketable securities (Note 4)	178	350
Investments in Affiliates (Note 7)	11,492	11,492
Severance pay fund	258	319
Property and equipment, net (Note 8)	266	302
Software development costs (Note 9)	12,843	12,045
<u>Total</u> long-term assets	33,003	30,667
<u>Total</u> assets	\$ 97,351	\$ 69,366

ONLINE MEDIA SOLUTIONS LTD. AND ITS SUBSIDIARIES

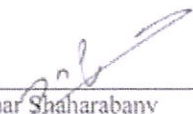
CONSOLIDATED BALANCE SHEETS

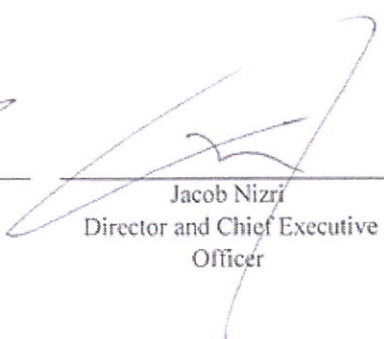
U.S. dollars in thousands

	March 31,	
	2017	2016
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Trade payables	\$ 2,705	\$ 2,742
Employees and payroll accruals	256	203
Other accounts payable and accrued expenses (Note 10)	1,982	1,487
<u>Total current liabilities</u>	<u>4,943</u>	<u>4,432</u>
LONG-TERM LIABILITIES:		
Accrued severance pay	712	712
Deferred tax liability, net	474	501
<u>Total long term liabilities</u>	<u>1,186</u>	<u>1,213</u>
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY		
Ordinary shares	38	38
Accumulated other comprehensive income	-	-
Additional paid-in capital	6,331	6,331
Retained earnings	84,853	57,352
<u>Total equity</u>	<u>91,222</u>	<u>63,721</u>
<u>Total liabilities and equity</u>	<u>\$ 97,351</u>	<u>\$ 69,366</u>

June 29, 2017

Date of approval of the  
financial statements

  
Shahar Shaharabany  
Chief Financial Officer

  
Jacob Nizri  
Director and Chief Executive  
Officer

ONLINE MEDIA SOLUTIONS LTD. AND ITS SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

U.S. dollars in thousands

	<u>Year ended March 31,</u>	
	<u>2017</u>	<u>2016</u>
Revenues	\$ 132,220	\$ 120,547
Cost of revenues	<u>77,642</u>	<u>65,802</u>
Gross profit	<u>54,578</u>	<u>54,745</u>
Operating expenses:		
Research and development cost amortization	2,262	1,380
Sales and marketing	6,179	8,256
General and administrative	<u>8,756</u>	<u>10,561</u>
<u>Total operating expenses</u>	<u>17,197</u>	<u>20,197</u>
Operating income (loss)	37,381	34,548
Non operating income	31	-
Capital gain	<u>-</u>	<u>(90)</u>
Income (loss) before taxes on income	37,412	34,458
Income tax benefit	(9,911)	(9,131)
Equity gain of affiliated companies	<u>-</u>	<u>-</u>
Comprehensive income (loss)	<u>27,501</u>	<u>25,327</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	Change in	Retained	Total	
	Number	at paid-in	unrealized	earnings	shareholders'	
	Amount	capital	gains on		equity	
			marketable			
			securities			
Balance as of March 31, 2015	14,294,123	38	6,331	-	32,025	38,394
Comprehensive income	-	-	-	-	-	-
Net income	-	-	-	-	25,327	25,327
Balance as of March 31, 2016	14,294,123	38	6,331	-	57,352	63,721
Comprehensive income	-	-	-	-	-	-
Net income	-	-	-	-	27,501	27,501
Balance as of March 31, 2017	14,294,123	38	6,331	-	84,853	91,222

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

	<b>Year ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
<u>Cash flows from operating activities:</u>		
Net income (loss)	\$ 27,501	\$ 25,327
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	2,262	1,380
(Increase) decrease in trade receivables	(15,371)	(7,632)
Increase in other accounts receivable and prepaid expenses	(10,008)	889
Decrease in deferred taxes liability, net	(27)	16
Increase (decrease) in trade payables	(36)	1,710
Increase (decrease) in employees and payroll accruals	53	(179)
Increase (decrease) in other accounts payable	494	(3,719)
Decrease in accrued severance pay, net	61	330
Equity gains of affiliated companies	-	-
Changes in marketable securities	172	-
Capital gain	-	-
Net cash provided by operating activities	5,101	18,122
<u>Cash flows from investing activities:</u>		
Purchase of property and equipment	(72)	(87)
Proceeds from long-term loans	(2,373)	(3,488)
Loan provided to a related party	564	-
Proceeds from (investment in) restricted cash	(42)	(3)
Capitalization of software development costs	(2,951)	(3,069)
Investment in affiliate	-	(10,624)
Net cash used in investing activities	(4,874)	(17,271)
Increase in cash and cash equivalents	227	851
Cash and cash equivalents at the beginning of the year	6,408	5,557
Cash and cash equivalents at the end of the year	\$ 6,635	\$ 6,408

## ONLINE MEDIA SOLUTIONS LTD. AND ITS SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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. 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 holds 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

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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 and credit cards.

g. Long-term lease deposits

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

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:

	<u>%</u>
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 \$2,154 and \$1,242 for the year ended March 31, 2017 and 2016, 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, 2017 and 2016, 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, 2017 and 2016 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.

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.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (CONT.)

The 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 (income) amounted to \$ (61) and \$ 41 for the years ended March 31, 2017 and 2016, 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".

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, 2017 and 2016 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.

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.

- r. In May 2014, the FASB issued guidance on revenue from contracts with customers that will supersede most current revenue recognition guidance, including industry-specific guidance. Under the new standard, a good or service is transferred to the customer when (or as) the customer obtains control of the good or service, which differs from the risk and rewards approach under current guidance. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and

ONLINE MEDIA SOLUTIONS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (CONT.)

cash flows arising from an entity's contracts with customers. In March, April and May 2016, the FASB issued three additional updates regarding identifying performance obligations and licensing, certain principal versus agent considerations, and various narrow scope improvements based on practical questions raised by users. The guidance may be adopted through either retrospective application to all periods presented in the financial statements (full retrospective approach) or through a cumulative effect adjustment to retained earnings at the effective date (modified retrospective approach). The guidance will be effective for the fiscal periods beginning on January 1, 2018 (early adoption is permitted). The Company is in the process of evaluating this guidance to determine the impact it will have on its consolidated financial statements.

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:

	<u>March 31,</u>	
	<u>2017</u>	<u>2016</u>
Affiliates Trade receivable	\$ 1,825	\$ 1,632
Affiliates Trade payable	\$ (143)	\$ (1,035)

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

	<u>Year ended March 31,</u>	
	<u>2017</u>	<u>2016</u>
Revenues	\$ 245	\$ 629
Financial income	\$ 381	\$ 255

NOTE 4:- MARKETABLE SECURITIES

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

	<u>March 31, 2017</u>				<u>March 31, 2016</u>			
	<u>Cost</u>	<u>other-than-temporary impairment</u>	<u>exchange rate changes on marketable securities</u>	<u>Fair value</u>	<u>Cost</u>	<u>other-than-temporary impairment</u>	<u>exchange rate changes on marketable securities</u>	<u>Fair value</u>
Equity securities	\$ 350	\$ (179)	\$ 7	\$ 178	\$ 269	\$ 65	\$ 16	\$ 350



ONLINE MEDIA SOLUTIONS LTD. AND ITS SUBSIDIARIES

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

U.S. dollars in thousands

**NOTE 5:- OTHER ACCOUNTS RECEIVABLE AND PREPAID EXPENSES**

	March 31,	
	2017	2016
Prepaid expenses	\$ 9,252	\$ 175
Government authorities	735	452
Other receivables	3,661	1,076
	\$ 13,648	\$ 1,703

**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.

- 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.

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.)

- e. During the year ended March 31, 2015 the Company loaned Lycos additional amounts of total \$2,616, with maturity dates of twelve months. The loans bear interest at a rate of LIBOR + 3% per annum.
- f. During the year ended March 31, 2016 the Company loaned Lycos additional amounts of total \$3,080, with maturity dates of twelve months. The loans bear interest at a rate of LIBOR + 3% per annum.
- g. During the year ended March 31, 2017 the Company loaned Lycos additional amounts of total \$1,671, 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.

- 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).

**ONLINE MEDIA SOLUTIONS LTD. AND ITS SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**U.S. dollars in thousands**

**NOTE 7:- INVESTMENT IN AFFILIATES (Cont.)**

c. On May 17, 2010, the Company purchased 6% of the outstanding shares of an Israeli company ("Convert Media Ltd" - formally "Argumtech Ltd."). Convert Media 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 Convert Media 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.

e. 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.

**NOTE 8:- PROPERTY AND EQUIPMENT**

	<b>March 31,</b>	
	<b>2017</b>	<b>2016</b>
Cost:		
Computers and peripheral equipment	\$ 1,516	\$ 1,444
Office furniture and equipment	157	157
Leasehold improvements	425	425
	2,098	2,026
Accumulated depreciation:		
Computers and peripheral equipment	1,396	1,314
Office furniture and equipment	88	81
Leasehold improvements	348	329
	1,832	1,724
Depreciated cost	\$ 266	\$ 302

Depreciation expenses for the years ended March 31, 2017 and 2016 were \$ 108 and \$ 138, respectively.

ONLINE MEDIA SOLUTIONS LTD. AND ITS SUBSIDIARIES

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

U.S. dollars in thousands

**NOTE 9:- SOFTWARE DEVELOPMENT COSTS**

	<b>March 31,</b>	
	<b>2017</b>	<b>2016</b>
Original amounts:		
Capitalized software costs	\$ 16,239	\$ 13,287
Accumulated amortization:		
Capitalized software costs	3,396	1,242
Software development costs	\$ 12,843	\$ 12,045
a. Amortization expenses amounted to \$ 2,154 and \$ 1,242 for the years ended March 31, 2017 and 2016, respectively.		
b. The estimated future amortization expense of other intangible assets as of March 31, 2017 is as follows:		
The year ended March 31, 2018	\$ 6,806	
The year ended March 31, 2019	4,238	
The year ended March 31, 2020	1200	
The year ended March 31, 2021	599	
	\$ 12,843	

**ONLINE MEDIA SOLUTIONS LTD. AND ITS SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**U.S. dollars in thousands**

**NOTE 10:- OTHER ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

	<b>March 31,</b>	
	<b>2017</b>	<b>2016</b>
Government authorities	\$ 46	\$ 45
Accrued Expenses	359	454
Advances from customers	135	45
Tax provision, net	1,373	908
Withholding tax	69	35
	\$ 1,982	\$ 1,487

**NOTE 11:- TAXES ON INCOME**

a. Israeli taxation:

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

- a. The Israeli corporate income tax rate was 25% in 2016 and 26.5% in 2015 and 2014.

In January 2016, the Law for Amending the Income Tax Ordinance (No. 216) (Reduction of Corporate Tax Rate), 2016 was approved, which includes a reduction of the corporate tax rate from 26.5% to 25%, effective from January 1, 2016.

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.

ONLINE MEDIA SOLUTIONS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 11:- TAXES ON INCOME (Cont.)

A company is taxable on its real capital gains at the corporate income tax rate in the year of sale.

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.

NOTE 12:- SHAREHOLDERS' EQUITY

Composition of share capital:

	Authorized		Issued and outstanding	
	March 31,		March 31,	
	2017	2016	2017	2016
	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.

ONLINE MEDIA SOLUTIONS LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

NOTE 13:- 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, 2020. Future minimum payments under non-cancelable operating lease agreements, as of March 31, 2017, are as follows:

Year ended March 31, 2018	\$	360
Year ended March 31, 2019		341
Year ended March 31, 2020		<u>205</u>
	\$	<u>905</u>

Rent expenses for the years ended March 31, 2017 and 2016, were \$286 and \$218, respectively.

b. Guarantee:

Guarantee in the amount of approximately \$ 123 were issued by a bank to secure rent payments.

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