

Wix.com Ltd.
Form 20-F
March 28, 2017

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

FORM 20-F

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, 2016

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, 2016, the registrant had outstanding 44,297,761 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 (§229.405 of this chapter) 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, or a non-accelerated filer. See the definitions of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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

WIX.COM LTD.

 FORM 20-F
 ANNUAL REPORT FOR THE FISCAL YEAR ENDED DECEMBER 31, 2016

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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)

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, 2016 and the consolidated balance sheet data as of December 31, 2015 and 2016 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, 2012 and 2013 and the consolidated balance sheet data as of December 31, 2012, 2013 and 2014 are derived from our audited consolidated financial statements that are not included in this annual report.

	Year Ended December 31,				
	2012	2013	2014	2015	2016
	(in USD thousands except share and per share data)				
Consolidated Statements of Operations:					
Revenues	43,676	80,473	141,841	203,518	290,103
Cost of revenues ⁽¹⁾	9,233	15,257	26,108	34,970	45,287
Gross profit	34,443	65,216	115,733	168,548	244,816
Operating expenses:					
Research and development ⁽¹⁾	16,782	29,660	57,832	77,647	105,368
Selling and marketing ⁽¹⁾	29,057	53,776	97,742	120,010	156,512
General and administrative ⁽¹⁾	3,565	8,307	15,803	19,526	26,968
Total operating expenses	49,404	91,743	171,377	217,183	288,848
Operating loss	(14,961)	(26,527)	(55,644)	(48,635)	(44,032)
Financial income (expenses), net	487	(603)	2,144	77	247
Other expenses	2	18	14	11	4
Loss before taxes on income	(14,476)	(27,148)	(53,514)	(48,569)	(43,789)
Taxes on income	496	1,572	3,052	2,765	3,107
Net loss	(14,972)	(28,720)	(56,566)	(51,334)	(46,896)
Basic and diluted net loss per ordinary share ⁽²⁾	(2.71)	(3.33)	(1.49)	(1.30)	(1.12)
Weighted average number of ordinary shares used in computing basic and diluted net loss per ordinary share ⁽²⁾	6,822,720	11,597,826	37,847,093	39,408,928	42,032,818

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As of December 31,
2012 2013 2014 2015 2016
(in USD thousands)

Consolidated Balance Sheet Data:

Cash and cash equivalents and short-term deposits	7,510	101,258	86,011	109,999	171,304
Restricted deposits	2,536	3,306	5,909	3,851	931
Total assets	16,055	115,355	118,422	149,433	214,684
Deferred revenues	18,984	37,184	66,598	104,767	156,733
Total shareholders' equity (deficiency)	(10,571)	62,296	18,650	(3,805)	(2,469)

Year Ended December 31,
2012 2013 2014 2015 2016
(in USD thousands except registered users and premium subscription data)

Supplemental Financial and Operating
Data:

Collections ⁽³⁾	52,479	98,673	171,255	241,687	342,069
Free cash flow ⁽⁴⁾	(4,555)	1,173	(6,422)	14,534	36,158
Number of registered users at period end ⁽⁵⁾	28,225,857	42,126,246	57,945,346	76,965,482	97,358,803
Number of premium subscriptions at period end ⁽⁶⁾	469,589	789,753	1,232,827	1,767,423	2,465,160

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

	Year Ended December 31, 2012 2013 2014 2015 2016 (in USD thousands)				
Cost of revenues	105	490	1,004	1,353	1,798
Research and development	553	3,149	6,594	9,234	14,543
Selling and marketing	101	1,185	2,533	3,077	4,553
General and administrative	261	2,230	3,806	5,069	7,154
Total share-based compensation expense	1,020	7,054	13,937	18,733	28,048

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 2r and 11 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,
2012 2013 2014 2015 2016

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(in USD thousands)

Reconciliation of Revenues to Collections:

Revenues	43,676	80,473	141,841	203,518	290,103
Change in long-term and short-term deferred revenues	8,803	18,200	29,414	38,169	51,966
Collections	52,479	98,673	171,255	241,687	342,069

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,				
	2012	2013	2014	2015	2016
	(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	(3,608)	4,243	(803)	20,876	40,573
Capital expenditures ^(a)	(947)	(3,070)	(5,619)	(6,342)	(4,415)
Free cash flow	(4,555)	1,173	(6,422)	14,534	36,158

^(a) 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 in any given (6) 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.

CReasons 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. Over 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;
- our ability to expand into new geographic markets; and
- the effectiveness of our advertising campaigns, especially high-budget campaigns such as the Super Bowl, City Football Group Limited, New York Yankees and other sponsorships.

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, 2014, 2015 and 2016, advertising expenses were \$74.0 million, \$87.6 million and \$113.2 million, respectively, representing 43%, 36% and 33% 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 are investing a significant portion of our marketing expenses in more traditional advertising and promotion of our brand, including through radio and television commercials (including a nationally televised campaign in the U.S. during Super Bowl LI, Super Bowl 50 and Super Bowl XLIX) and sponsorships including of City Football Group Limited and the New York Yankees, 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 are subject to laws and regulations concerning information security, data privacy, and data protection, and these laws and regulations are continuing to evolve. New laws and regulations may also impair our ability to collect, store, and use personally identifiable information, credit card information, passwords and other sensitive or critical data. If we fail to comply with these laws and regulations or it is perceived that we have failed to comply, we may be subject to increased liability, regulatory scrutiny, and reputational harm, thereby materially adversely affecting our business and results of operations.

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 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.

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, 2016, we had an accumulated deficit of \$243 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.

A decrease in annual subscriptions or 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, 2016, one-year, two-year and three-year subscription packages constituted approximately 83% 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, two-year and three-year subscriptions have higher renewal rates than monthly subscriptions, since there are not as many opportunities in a given one-year, two-year or three-year period to fail to renew such subscription, than a monthly subscription, whether deliberately or through failure to update payment information upon expiration. As such, our overall renewal rates may drop if there is a decrease in the number of premium subscriptions for one year or more, compared to premium monthly subscriptions and will affect our ability to forecast our future results of operations. If the number of premium subscriptions for one year or more, 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, 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, including radio 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.

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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. Our revenues and competitive position could be materially adversely affected if we fail to improve our design features or technology, or if our solutions fail to achieve widespread acceptance.

We are subject to privacy and data protection laws and regulations as well as contractual privacy and data protection obligations, and our failure to comply with these 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. Since the first quarter of 2013, we also collect billing information, such as credit card numbers, full names, billing address and phone numbers. 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. We also launched WixHive. The WixHive 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 is 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. For example, although we do not have an operating entity in the Netherlands, the control that we exert over our servers in the Netherlands may result in our activities in Europe being deemed to be subject to Dutch law. 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 use of personal information, data retention limits and deletion requirements, mandatory notification in the case of a data breach and elevated standards regarding valid consent to engage in 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. Since these laws and regulations will come into effect next year, the more stringent requirements on privacy user notifications and data handling, 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. Since these legislative changes became effective on September 1, 2015, we continue to monitor their implementation, and we expect additional clarifications to be made by the Russian data protection authority (Roscomnadzor).

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. 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 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”, we recently acquired U.S. - based DeviantArt, Inc. and Israeli-based Loyalblocks Ltd. (operating as Flok) in the first quarter of 2017. 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;

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- 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.

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 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 depend on highly skilled personnel to 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. We compete with many other companies for software developers with high levels of experience in designing, developing and managing cloud-based software, as well as for skilled marketing, operations, and customer service professionals, and we may not be successful in attracting and retaining the professionals we need.

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 the recent increases in our share price which has in turn 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.

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 leased 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 with a back-up data center in Europe. We lease our primary data centers in the United States from Amazon.com and from Hostway Services, Inc. and we also sublease cloud storage from Google, Inc. The Hostway lease is governed by an agreement which may be terminated by either party at any time with 180 days advance notice. If Hostway 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 we lease 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. 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. The scale of some of these attacks 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 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 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 if those search engines or social networking sites change their listings or policies regarding advertising, or increase their pricing or suffer problems, it may limit our ability to attract new registered users.

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 sites such as Facebook. Search engines typically provide two types of search results, natural (i.e., non-paid) and purchased listings. 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. If search engines on which we rely for algorithmic listings 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. 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. 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.

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.

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 which improves the functionality of our solutions and their ease of use, our reputation, financial results and business prospects may be materially harmed.

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.

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, or issuers may terminate their relationship with us; 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.

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.

If we do not or cannot maintain the compatibility of our platform and solutions with third-party applications change 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 those services directly. Third-party application providers may change the features of their applications and platforms or alter the terms governing 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, and our competitors may 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 directly, or adapt to the data transfer requirements of such third-party applications and platforms, 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 fourth quarter of 2016, 83% of our premium subscriptions were one-year, two-year or three-year subscriptions and approximately 17% 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 ability to enhance our products may be harmed if we are unable to attract and retain sufficient research and development personnel.

In order to remain competitive, we must continue to develop new solutions, applications and enhancements to our existing platform. 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 or marketing employees, our business, prospects and results of operations could be materially adversely affected.

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 2016, approximately 69% of our revenues were denominated in U.S. dollars and approximately 31% in other currencies, primarily in Euros, British Pounds and the Brazilian Real. Conversely, in 2016, approximately 62% of our cost of revenues and operating expenses were denominated in U.S. dollars, approximately 35% 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, any appreciation of the NIS relative to the U.S. dollar would 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 \$12 million in 2016. 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 \$8 million in 2016. The post-Brexit fall in the pound sterling and strengthening of the dollar could significantly impact our business in the UK. 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 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.

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. We are experiencing a period of rapid growth in our operations and headcount and grew from 584 employees as of January 1, 2014 to 1,284 employees as of December 31, 2016. Other than our executive officers, most of our employees have been with us for fewer 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 maintain important aspects of our 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.

Our business relies on the experience and expertise of our senior management and other key personnel.

The success of our business is dependent to a large degree on the continued service of our executive officers. 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. Finally, given our increased profile as a public company, our employees are more likely to be the targets of attempts by competitors and others to hire them away from us.

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.

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.

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; and
- cross-border e-commerce.

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.

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

As our level 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. 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.

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. The adoption of any 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, currently prohibits 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"). Given uncertainty around these rules, including changing interpretations, amendments or repeal, 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, repeal, modification or other changes to the FCC's rules 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 future prospects may be adversely affected if we are unable to generate revenues from sources other than our premium subscription packages.

In addition to our editor, we provide all of our registered users with access to additional products and services that enhance their digital presence. For example, in 2012 we launched the Wix App Market, which is integrated into our platform. Through the App Market, we offer our registered users a range of software applications that can be integrated as add-ons to their free or premium websites. The App Market offers both applications that are developed by us and by third-party developers. 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 for these items may negatively impact our registered users' perception of us due to our email marketing to generate sales. If we do not succeed in selling these items, our future prospects may be adversely affected.

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 or the U.K. Bribery Act. 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.

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 merchant 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.

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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 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 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 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 or trademarks will issue from pending or future applications or that, if patents or trademarks issue, they will not be challenged, invalidated or circumvented, or that the rights granted under the patents 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.

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 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 2016, 37% of our premium subscriptions were purchased by users that registered with us in the same quarter and the remaining 63% 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 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 Patent Law also provides that if there is no such agreement between an employer and an employee, the Israeli Compensation and Royalties Committee, a body constituted under the Israeli Patent Law, shall determine whether the employee or contractor is entitled to remuneration for their inventions, though, the Committee has not yet determined the method for calculating this Committee-enforced remuneration. 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 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.

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 \$71.10 per share and as low as \$14.28 per share through March 26, 2017. During 2016, our ordinary shares have traded as high as \$52.50 per share and as low as \$14.79 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; and
- general economic and market conditions.

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." Some of these shareholders have an individual affiliated with them 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 the perception that such sales could occur, may cause the market price of our ordinary shares to decline.

Future sales of our ordinary shares by significant shareholders may cause the market price of our ordinary shares to decline. This includes sales by our four largest shareholders who, as of February 28, 2017 beneficially owned 42.0% 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 and may make it more difficult for investors to sell ordinary shares at a time and price which such investors deem appropriate.

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 1/3% 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.

The market price of our ordinary shares could be negatively affected by future sales of our ordinary shares.

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. The perception in the public market that these shareholders might sell our ordinary shares could also depress the market price of our ordinary shares and could impair our future ability to obtain capital, especially through an offering of equity securities.

As of February 28, 2017, the holders of 6,866,789 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, 2017, 10,745,959 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 4,555,562 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.

You may be subject to adverse United States federal income tax consequences if we are classified as a Controlled Foreign Corporation.

Each “Ten Percent Shareholder” in a non-U.S. corporation that is classified as a “controlled foreign corporation,” or a CFC, for United States federal income tax purposes generally is required to include in income for U.S. federal tax purposes such Ten Percent Shareholder’s pro rata share of the CFC’s “Subpart F income” and investment of earnings in U.S. property, even if the CFC has made no distributions to its shareholders. A non-U.S. corporation generally will be classified as a CFC for United States federal income tax purposes if Ten Percent Shareholders own, directly or indirectly, more than 50% of either the total combined voting power of all classes of stock of such corporation entitled to vote or of the total value of the stock of such corporation. A “Ten Percent Shareholder” is a United States person (as defined by the U.S. Internal Revenue Code of 1986, as amended, or the Code) who owns or is considered to own 10% or more of the total combined voting power of all classes of stock entitled to vote of such corporation. The determination of CFC status is complex and includes attribution rules, the application of which is not entirely certain.

We do not believe that we were a CFC for the taxable year ended December 31, 2016 or that we are currently a CFC. It is possible, however, a shareholder treated as a United States person for United States federal income tax purposes will acquire, directly or indirectly, enough shares to be treated as a Ten Percent Shareholder after application of the constructive ownership rules and, together with any other Ten Percent Shareholders of the Company, cause the Company to be treated as a CFC for United States federal income tax purposes. We believe that certain of our shareholders are Ten Percent Shareholders for United States federal income tax purposes. Holders should consult their own tax advisors with respect to the potential adverse U.S. tax consequences of becoming a Ten Percent Shareholder in a CFC.

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, 2016. 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 2017 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 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 66²/₃% 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 66²/₃% 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.

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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, beginning with our annual report for the fiscal year ended December 31, 2016, we are required to furnish a report by management on the effectiveness of our internal control over financial reporting. Accordingly, during the fiscal year ended December 31, 2016, our management commenced the process of evaluating the effectiveness of our internal control over financial reporting. Additionally, pursuant to Section 404(b) of the Sarbanes-Oxley Act, beginning with our annual report for the fiscal year ended December 31, 2016, as we are no longer an emerging growth company and qualify as a large accelerated filer, we must 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, and an escalation in terrorist attacks in late 2015 and in the first few months of 2016. 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, 2016, we had 1,053 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. 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 2014 and 2015, decreased to 25% for 2016 and is scheduled to decrease to 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 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. We intend to 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, 6th Floor, San Francisco, CA 94158-2230, telephone number (415) 639-9034.

Principal Capital Expenditures

Our capital expenditures for fiscal years 2016, 2015 and 2014 amounted to \$4.4 million, \$6.4 million and \$5.6 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 2017 to be approximately \$6 - \$7 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, 2016 we empower approximately 97.3 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, 2016, we had 2,465,160 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.

We 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 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, 2016 we offered our registered users the ability to easily install and uninstall 280 free and purchasable different 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 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 97.3 million at December 31, 2016, representing a 41.8% compounded annual growth rate. Our premium subscriptions have grown from 298,143 to 2,465,160 over the same period, representing a 52.6% compounded annual growth rate. Through December 31, 2016, we had achieved 28 consecutive quarters of sequential growth in the accumulated number of premium subscriptions. We have also achieved 28 consecutive quarters of growth in revenues and collections. We had revenues of \$141.8 million, \$203.5 million and \$290.1 million and collections of \$171.3 million, \$241.7 million and \$342.1 million in 2014, 2015 and 2016, respectively. We had a net loss of \$56.6 million, \$51.3 million and \$47.2 million in 2014, 2015 and 2016, 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. We intend to use Loyalblock's products and technology to enhance our existing customer relationship management tools and commerce capabilities we offer our users.

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 website, our users gain access to the Wix Editor, an online editor that enables the user to design and manage as many websites as he chooses, 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 the 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. In the third quarter of 2015, we released an entirely redesigned version of the Wix Editor, which 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 Mobile Web

All of our products allow registered users to create mobile sites for their existing Wix websites. 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. As of December 31, 2016, our registered users created over 22.6 million mobile sites using our mobile solutions. 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 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 Tool

All of our products enable registered users to increase the visibility of their Wix website by using our Search Engine Optimization, or Wix SEO tool. Through this tool, registered users may attach to their sites a description and keywords that relate to the site, so that web viewers or customers may find our registered users' sites easily by searching for the descriptive or key words, using Internet search engines. Our customer support team, through online video tutorials or one-on-one support, guides our registered users on the most efficient key words and site descriptions, in order to help registered users maximize the benefits of SEO and attain a larger digital presence. In the first quarter of 2017, we soft-launched an improved version of our Wix SEO tool, which provides users with personalized plans to further optimize the visibility of their Wix websites on Internet search engines.

Premium Subscriptions

Our premium subscriptions are purchased primarily by businesses, organizations and professionals in a variety of fields, such as art, finance, entertainment, music, 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 but also include features tailored to business' needs, such as eCommerce and appointment 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 WixStores 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

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 either uploading their own Favicon, or choosing one from our Favicons Gallery. This feature enhances the professional design 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, we will review the completed sites of our VIP subscribers who have published their sites and provide feedback 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 280 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, 2016, registered users had installed 56.5 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, WixHive, which has turned the App Market into a dynamic data ecosystem. The WixHive 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. In addition, we offer registered users the ability to purchase Google email services with addresses linked to their personal domain name. Wix Email features advanced filtering and search capabilities, as well as automatic mail forwarding and responding. This product is integrated into our premium subscriptions, but is also available for purchase on a standalone basis.

WixShoutOut

In the third quarter of 2014, we launched WixShoutOut, 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 WixHive API, which enables formerly standalone apps to share their collected data and provide users with new capabilities and actionable information. WixShoutOut uses WixHive 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, 2017, Wix ShoutOut had been used by more than 800,000 Wix registered users who have sent nearly 3 million ShoutOuts to approximately 1.26 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 WixHotels, WixStores, WixMusic, WixBookings, WixRestaurants and WixPhotography. We intend to continue introducing additional solutions that offer a complete online business solution tailored to specific businesses.

· WixStores

WixStores 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. WixStores 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 WixStores.

The WixStores 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, WixStores is designed to integrate seamlessly with other components of the Wix platform, including Wix ShoutOut, WixHive and App Market offerings. Combined with these products, WixStores enables merchants to create, manage and grow their online business from one cohesive environment.

· WixBookings

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 syncs 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.

· WixHotels

WixHotels 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, WixHotels 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 over 300 online travel agencies and marketplaces, such as Booking.com, Expedia and Travelocity. WixHotels users can also connect their site to TripAdvisor's instant booking capabilities and can enhance the promotion of their business by easily connecting to Google Hotels Ads, and as a result increase their traffic and conversion rate. WixHotels is fully optimized for mobile devices, enabling potential travelers to book a room on the go.

· WixMusic

WixMusic is a complete solution 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, WixMusic ensures music sharing and purchasing can continue on the go.

· WixRestaurants

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.

· WixPhotography

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, 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 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. 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.

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, 2016, we had over 200 Support and Call Center employees, located in both the United States and Israel.

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, 2016, we had approximately 97.3 million registered users and 2,465,160 premium subscriptions.

We also provide a free co-working and event space in our Wix Lounge in New York City. The lounge provides designers who use our solutions, as well as freelancers, artists and entrepreneurs, with a workspace and an opportunity to network with others. Access to the lounge is on an invitation-only basis and is reserved for users who subscribe to at least one premium package. We also host events at our lounge that allows our registered users the ability to showcase their work, free of charge. We have found that our lounge enhances our brand and strengthens our network of registered users.

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 2017, we are continuing to focus our marketing spending on channels that bring new users to visit, register and begin using our products and services.

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 \$74.0 million in 2014, \$87.6 million in 2015 and \$113.2 million in 2016. 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 radio and television commercials mainly in the United States and United Kingdom.

·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 subscription and as of December 31, 2016, 83% of our premium subscriptions were for one-year, two-year or three-year and 17% 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.

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 lease our data centers from third parties. Our primary data centers are in two geographically separate locations in the United States with a back-up data center in Europe. We lease our primary data centers in the United States from Hostway Services, Inc. pursuant to an agreement which may be terminated by either party at any time with 180 days advance notice. 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 Amazon and Google cloud services 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.

WixJet

In the third quarter of 2014, we announced our new WixJet technology. WixJet is a complete restructuring of our platform's software code. Offering a significantly leaner codebase, better modularization and improved testability, we believe that WixJet will enable us to develop and deploy new products, features and capabilities into our platform at a faster pace compared to our deployment in the past.

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 leased from third parties located in the United States and the Netherlands, as well as cloud storage from Amazon and Google. We use our own servers to run our research and development activities and to operate our office applications. Our use of over 400 servers in different locations, including the use of Amazon and Google cloud services 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, 2016, we had 778 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 \$57.8 million in 2014, \$77.6 million in 2015 and \$105.4 million in 2016. 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.

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 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). 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 protections laws and regulations.

United States

A number of legislative proposals pending before the U.S. Congress, various state legislative bodies, and foreign governments concerning privacy and data protection could affect us. 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

Although we do not have an operating entity in the Netherlands, the control that we exert over our servers in the Netherlands may result in our activities in Europe being deemed to be subject to European law. European data privacy principles, which apply in the Netherlands, distinguish between a data controller (the entity which alone or jointly determines the purposes and means of the processing of personal data) and a data processor (the entity which processes the personal data on behalf of the controller).

In April 2016, the European Union adopted a new General Data Protection Regulation 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 a more frequent need for the user's consent, imposing an obligation to act on data breaches, 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. Should we become 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 may 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 General Data Protection Regulation. For example, among other things, we would be required to notify 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). Such e-Privacy Regulation would also likely apply as from 25 May 2018.

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 9,079 square meters (approximately 97,728 square feet) of leased office space. We also lease additional office space in Beer-Sheva totaling approximately 617 square meters (approximately 6,644 square feet) and in Haifa totaling 50 square meters (approximately 538 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 May 1, 2017 and January 31, 2021.

In the United States, we maintain offices in New York City, San Francisco and Miami. In New York, we lease approximately 6,000 square feet until April 30, 2018 and, in San Francisco, we lease 34,459 square feet for a period of seven years until February 28, 2021, of which we sublease approximately 11,000 square feet to third parties. In Miami, we lease approximately 4,700 square feet for a period of three years until March 2019. Also in Miami, we have recently entered into a lease agreement for approximately 24,074 square feet for a period of seven years until March 2025. We expect to occupy this new space before the end of 2017 at which time we will terminate our existing lease in Miami. 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, 2016 we empower approximately 97.3 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 2016, we achieved significant growth as compared to 2015 as our registered users and premium subscriptions continue to increase and we continue to benefit from our expanded product offerings. Our revenue was \$290.1 million in 2016, which represented an increase of 43% from 2015. 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 2017, 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, 2016, 83% of our overall premium subscriptions were one-year, two-year or three-year subscriptions and 17% were monthly subscriptions.

In addition, we generate revenues from selling third-party domain registrations and from revenue sharing agreements with 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 and \$5.9 million in 2015 and 2016, 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 2016 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 radio and television commercials mainly in the United States and United Kingdom.

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 grow 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 2016, 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, 2016, the first quarter 2010 User Cohort generated a total of 89,387 new premium subscriptions and continued to generate premium subscriptions up through and during the first quarter of 2017.

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 - 2016. 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. Twenty eight (28) quarters later, as of December 31, 2016, there were still 18,413 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 \$16.3 million and \$17.2 million in collections through the fourth quarter of 2016. Approximately \$0.9 million of deferred revenue relating to purchases by this user cohort remained outstanding at December 31, 2016. 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 28 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 twenty eight (28) 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 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 are more active subscriptions in such cohort at the end of 2016 than existed when the cohort was acquired 28 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, 2016 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 and annual premium subscriptions by businesses, organizations, professionals and individuals to our various premium subscriptions, which include Wix ad removal, access to Google Analytics, domain connectivity and eCommerce solutions.

We derive a small portion of our revenues from selling third-party domain registrations. Revenues from domain name registrations accounted for approximately 8% of revenues in 2014, approximately 7% of revenues in 2015 and approximately 7% of revenues in 2016. 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 2014, 2015 and 2016. 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 and e-wallets. 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,					
	2014		2015		2016	
North America	51	%	51	%	50	%
Europe	27		27		27	
Latin America	10		9		9	
Asia and Others	12		13		14	
Total	100	%	100	%	100	%

We expect the percentage of revenues derived from outside of North America to 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.

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 radio and 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, 2016, 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 \$95 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 2014 and 2015, 25% in 2016, and will be 24% in 2017 and 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, 2014		2015		2016	
	Amount	% of Revenues	Amount	% of Revenues	Amount	% of Revenues
	(in USD thousands)					
Revenues	141,841	100.0	203,518	100.0	290,103	100.0
Cost of revenues	26,108	18.4	34,970	17.2	45,287	15.6
Gross profit	115,733	81.6	168,548	82.8	244,816	84.4
Operating expenses:						
Research and development	57,832	40.8	77,647	38.2	105,368	36.3
Selling and marketing	97,742	68.9	120,010	59.0	156,512	54.0
General and administrative	15,803	11.1	19,526	9.6	26,968	9.3
Total operating expenses	171,377	120.8	217,183	106.7	288,848	99.6
Operating loss	(55,644)	(39.2)	(48,635)	(23.9)	(44,032)	(15.2)
Financial income, net	2,144	1.5	77	0.0	247	0.1
Other expenses	14	0.0	11	0.0	4	0.0
Loss before taxes on income	(53,514)	(37.7)	(48,569)	(23.9)	(43,789)	(15.1)
Taxes on income	3,052	(2.2)	2,765	(1.4)	3,107	(1.1)
Net loss	(56,566)	(39.9)	(51,334)	(25.3)	(46,896)	(16.2)

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

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.

Year Ended December 31, 2014 Compared to Year Ended December 31, 2015

Revenues

Revenues increased by \$61.7 million, or 43%, from \$141.8 million in 2014 to \$203.5 million in 2015. The substantial majority of this increase was driven by 43% growth in the number of premium subscriptions from 1,232,827 as of December 31, 2014 to 1,767,423 as of December 31, 2015. 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 \$70.4 million, from \$171.3 million in 2014 to \$241.7 million in 2015. This increase was primarily due to an increase in premium subscriptions from 1,232,827 to 1,767,423 and an increased shift from monthly to annual subscription packages sold.

Costs and Expenses

Cost of Revenues

Cost of revenues increased by \$8.9 million, or 34%, from \$26.1 million in 2014 to \$35.0 million in 2015. This increase was primarily attributable to an increase of \$2.6 million in payroll expenses, consisting of \$2.3 million due to increased headcount from 216 to 252 and \$0.3 million in share-based compensation expense. The increase was also due to an increase of \$1.5 million in bandwidth and hosting costs, an increase of \$3.4 million in domain name costs and an increase of \$1.4 million related to allocated overhead expenses and other costs due to expanded activities.

Research and Development

Research and development expenses increased by \$19.8 million, or 34%, from \$57.8 million in 2014 to \$77.6 million in 2015. This increase was primarily attributable to an increase of \$15.5 million in payroll, subcontractors and consultant fees, consisting of \$12.9 million due to increased headcount from 462 to 609 to support our development plans and \$2.6 million in share-based compensation expense. The increase was also due to an increase of \$4.3 million related to allocated overhead expenses and other development costs due to expanded activities.

Selling and Marketing

Selling and marketing expenses increased by \$22.3 million, or 23%, from \$97.7 million in 2014 to \$120.0 million in 2015. This increase was primarily attributable to an increase of \$13.6 million in user acquisition costs and other marketing activities from \$74.0 million in 2014 to \$87.6 million in 2015 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 \$3.9 million in payroll expenses consisting of an increase of \$3.4 million due to increased headcount from 163 to 183 and an increase of \$0.5 million in share-based compensation expense, an increase of \$1.7 million in processing costs of our collections and an increase of \$3.1 million in related allocated overhead expenses.

General and Administrative

General and administrative expenses increased by \$3.7 million, or 24%, from \$15.8 million in 2014 to \$19.5 million in 2015. This increase was primarily attributable to an increase of \$2.5 million in payroll expenses, consisting of \$1.2 million due to increased headcount from 57 to 75, and \$1.3 million in share-based compensation expense. The increase was also due to an increase of \$0.8 million in legal and audit costs and an increase of \$0.4 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 (expenses), net decreased by \$2.0 million from net financial expenses of \$2.1 million in 2014 to net financial income of \$0.1 million in 2015. Financial expenses in 2015 amounted to \$2.2 million primarily related to \$2.1 million due to exchange rate differences. Financial income in 2015 amounted to \$2.3 million of which \$2.1 million were in connection with the hedging transactions activity and \$0.2 million in interest income.

Taxes on Income

Taxes on income decreased by \$0.3 million from \$3.1 million in 2014 to \$2.8 million in 2015. Taxes on income for 2015 were comprised of \$1.8 million in taxes in Brazil, \$0.6 million in taxes in the United States and \$0.4 million in taxes related to the Israeli entity.

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. Deferred service revenues primarily include

unearned amounts received from customers but not recognized as revenues.

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Although in general, we do not grant rights of refund, 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.

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-employees 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 \$13.9 million, \$18.7 million and \$28.0 million in the years ended December 31, 2014, 2015 and 2016, 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, 2016, we had a net operating loss carryforward of approximately \$95 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(w) 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, 2016, we had \$93.1 million of cash and cash equivalents and \$78.2 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.

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, 2016, we had a working capital of (\$8.9) million, which included \$147.0 million of short-term deferred revenues recorded as a current liability, and we also had \$9.7 million of long-term deferred revenues. These deferred revenues remain unrecognized generally for one to 12 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 \$6 - \$7 million in 2017 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,		
	2014	2015	2016
	(in USD thousands)		
Net cash provided by (used in) operating activities	(803)	20,876	40,573
Net cash used in investing activities	(60,708)	(28,668)	(8,393)
Net cash provided by financing activities	812	6,818	21,658

Cash Provided by (Used in) Operating Activities

Net cash provided by operating activities increased by \$19.7 million in 2016 compared to 2015. 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, 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.

For the year ended December 31, 2014, operating activities used \$0.8 million in cash, primarily resulting from our net loss of \$56.6 million, which included \$17.5 million of non-cash charges related primarily to share-based compensation expenses, depreciation, amortization and tax benefits related to the exercise of share options. Our net loss (after adjusting for non-cash items) was offset primarily by a net change of \$38.3 million in our operating assets and liabilities, which was primarily the result of an increase of \$29.7 million in deferred revenues due to an increase in collections from our premium subscriptions, an \$14.4 million increase in payroll accruals and other liabilities primarily due to trade payables and others, \$1.0 million related to accrued interest and exchange rate on short term and long term deposits and \$0.1 million in change in deferred income taxes. These changes were offset by a \$6.5 million increase in prepaid expenses and other current and long term assets, an increase of \$0.4 million in trade receivables as a result of growth in our business.

Cash Used in Investing Activities

Cash used in investing activities was \$8.4 million, \$28.7 million and \$60.7 million in 2016, 2015 and 2014, 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 Appixia Ltd. and OpenRest Ltd. and other intangible assets.

Cash Provided by Financing Activities

Cash provided by financing activities was \$21.7 million, \$6.8 million and \$0.8 million in 2016, 2015 and 2014, 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 778 employees and contractors. In 2016, research and development costs accounted for approximately 36.3% 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, Israel and Germany in order to protect our invention as well as PCT applications that may result in additional national applications. As of December 31, 2016 we have 2 issued US patents and 24 pending US patent applications (some of which were also filed under PCT or in additional regions, adding a total of 112 non-US patent applications). 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, 2016 to December 31, 2016 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, 2016 are summarized in the following table:

	Payments Due by Period ⁽¹⁾						
	Total	2017	2018	2019	2020	2021	2022
	(in USD thousands)						
Operating lease obligations ⁽²⁾	22,178	7,347	5,348	4,581	4,317	585	-
Uncertain tax obligations ⁽³⁾	1,098	-	-	-	-	-	-
Total	23,276	7,347	5,348	4,581	4,317	585	-

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

Consists of future lease payments for our rented office facilities located in Tel Aviv, Haifa and Beer-Sheva, Israel;

(2) New York, New York; San Francisco, California; Miami, Florida; Vilnius, Lithuania; Berlin, Germany; and Sao Paulo, Brazil. It also includes future lease payments for leased motor vehicles.

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 9(i) to our

(3) 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, 2017:

Name	Age	Position
Executive Officers		
Avishai Abrahami	45	Co-founder, Chief Executive Officer, Director and Honorary Chairman
Giora Kaplan	46	Co-founder, Chief Technology Officer and Director
Lior Shemesh	47	Chief Financial Officer
Nir Zohar	39	President and Chief Operating Officer
Omer Shai	39	Chief Marketing Officer
Yaniv Even-Haim	42	Vice President of Research and Development
Directors		
Mark Tluszczy ⁽²⁾⁽⁴⁾	50	Chairman of the Board
Norbert Becker ⁽¹⁾⁽²⁾⁽⁴⁾	63	Director
Allon Bloch ⁽⁴⁾	46	Director
Yuval Cohen ⁽⁴⁾	54	Director
Ron Gutler ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾	59	Director
Erika Rottenberg ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾	54	Director
Roy Saar ⁽³⁾⁽⁴⁾	46	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 Tluszczyk has served as the Chairman of our board of directors since February 2016, as a member of our board of directors since June 2010 and as a member of our Compensation Committee as of May 2016. Mr. Tluszczyk 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. Tluszczyk currently serves on the board of directors of STS Media, Inc. (trading as FreedomPop), JobToday S.A. and Galencium Health S.L. Mr. Tluszczyk holds a Bachelor of Arts degree with honors from Eckerd College, St. Petersburg, Florida.

Norbert Becker has served as a member of our board of directors since October 2014. Mr. Becker serves on the board and committees of a number of private companies in the financial services industry, including as a director and a member of the audit and remuneration committee of Paypal Europe since 2008. From 2005 until 2011, Mr. Becker served as a director, chairman of the audit committee, and a member of the remuneration committee of Skype S.à.r.l. In 2007, Mr. Becker was one of the co-founders of Compagnie de Banque Privée, a private bank incorporated in Luxembourg and serves as Chairman. Prior to that, Mr. Becker held various senior executive positions in Andersen Worldwide and Ernst & Young Global and was appointed Global Chief Financial Officer of Ernst & Young. Mr. Becker is involved with a number of international private equity firms, such as Edmond de Rothschild Group. Mr. Becker also served on the board of BIP Investment Partners, a public investment firm based in Luxembourg. He is the managing director of Intesa Sanpaolo Holdings International S.A., which is wholly owned by Intesa Sanpaolo. Mr. Becker is the Chairman of Lombard International Assurance S.A. and he is the founding partner and Chairman of Atoz, a tax advisory firm. Mr. Becker earned a doctor honoris causa degree from Sacred Heart University, Fairfield, Connecticut and is a Trustee of the University. As previously disclosed, Mr. Becker regretfully informed us of his

intention to retire from our board of directors due to personal health reasons, effective April 1, 2017.

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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. 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. 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. 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. Since 2011 Mr. Saar has been a consultant to Mangrove III 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 RFcell 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, including share-based compensation, was approximately \$10.6 million for the year ended December 31, 2016. 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 0.4 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, 2016 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 3,938,552 shares with exercise prices ranging from \$0.00 to \$31.65 and (ii) 222,055 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 2016, 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, 2016.

Mr. Avishai Abrahami, Chief Executive Officer and Director. Compensation expenses recorded in 2016 of \$342 in salary expenses and \$98 in social benefit costs.

Mr. Giora Kaplan, Chief Technology Officer and Director. Compensation expenses recorded in 2016 of \$342 in salary expenses and \$100 in social benefit costs.

Mr. Nir Zohar, President and Chief Operating Officer. Compensation expenses recorded in 2016 of \$316 in salary expenses and \$73 in social benefit costs.

Mr. Lior Shemesh, Chief Financial Officer. Compensation expenses recorded in 2016 of \$315 in salary expenses and \$64 in social benefit costs.

Mr. Omer Shai, Chief Marketing Officer. Compensation expenses recorded in 2016 of \$306 in salary expenses and \$75 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 2016 performance parameters set by the Compensation Committee and the Board of Directors. The 2016 cash bonus expenses for Avishai Abrahami, Giora Kaplan, Nir Zohar, Lior Shemesh and Omer Shai, as provided for in our 2016 financial statements (but paid during 2017), 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 2016, we granted our directors and executive officers options to purchase an aggregate of 612,658 shares and 99,221 RSUs under our equity incentive plans, with exercise price of these options ranging from \$21.03 to \$31.65, 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. All such equity grants are subject to a vesting schedule over a four-year period, and the equity grants to our Chief Executive Officer and Chief Technology Officer were also 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, 2016 for the above 2016 options and RSU grants granted to Avishai Abrahami, Giora Kaplan, Nir Zohar, Lior Shemesh and Omer Shai on February 9, 2016, of \$338,000, \$106,000, \$213,000, \$165,000 and \$165,000, respectively. The relevant amounts underlying the equity awards granted to our directors and officers during 2016, will continue to be expensed in our financial statements during the years 2017-2019 on account of the 2016 grants. Assumptions and key variables used in the calculation of such amounts are described in Note 8 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.

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. 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.

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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, 2017, 10,745,959 ordinary shares are subject to outstanding option and RSU awards granted to employees and office holders under our share incentive plans, including 4,555,562 ordinary shares issuable under currently exercisable share options. As of February 28, 2017, 2,669,134 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 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, 2016, options to purchase 4,874,133 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, 2016, options to purchase 3,531,654 of our ordinary shares and 1,368,050 RSUs were outstanding under the 2013 plan.

In 2016, under the 2013 plan, we granted to certain of our directors, executive officers and employees, options to purchase 1,185,869 of our ordinary shares at a weighted average exercise price of \$22.4 per share and 1,038,000 RSUs.

As of December 31, 2016, the number of shares that we may issue under the 2013 plan is 1,968,934 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, 2017, the number of ordinary shares reserved for the 2013 plan increased by 2,214,888. The total number of ordinary shares reserved under the 2013 plan as of February 28, 2017 was 2,669,134.

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, 2017:

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

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

Employee Stock Purchase Plan

We have adopted an employee stock purchase plan, or ESPP, pursuant to which our employees, full time Israeli 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, 2017, the number of ordinary shares reserved for the ESPP increased by 442,978. The total ordinary shares reserved under the ESPP as of February 28, 2017 was 508,742. On March 1, 2017, 117,564 ordinary shares were issued under the ESPP for the 6 months period from September 1, 2016 through February 28, 2017.

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 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 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 Norbert Becker, Allon Bloch and Erika Rottenberg, and their terms expire at our annual meeting of shareholders to be held in 2017 (as described above, Mr. Becker is retiring from our board of directors due to personal health reasons, effective April 1, 2017);

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.

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Under our articles of association, the approval of the holders of at least 66²/₃% 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 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 two-thirds 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 Tluszcz 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 New 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 the recently adopted Israeli regulations, 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 Norbert Becker and Ron Gutler from serving as external directors to “regular” independent directors and to assign Norbert Becker as a Class I director and Ron Gutler as a Class II director.

Audit Committee

Composition Requirements

Under NASDAQ corporate governance rules and the Companies Law, 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, Norbert Becker 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.

As previously disclosed, on February 21, 2017, Yuval Cohen, a member of our board of directors, will replace Mr. Becker as a member of the audit committee following Mr. Becker’s retirement from our board of directors on April 1, 2017.

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;

- 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 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, Norbert Becker, Erika Rottenberg and Mark Tluszcz. Ron Gutler serves as the Chair of the compensation committee. Mr. Becker will resign from the compensation committee upon his retirement from our board of directors on April 1, 2017.

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, Erika Rottenberg and Roy Saar. 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; and if (b) 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, 2016, we had 1,284 employees, 1,053 of whom were based in Israel, 158 of whom were based in the United States, 66 of whom were based in the Lithuania, 3 of whom were based in Brazil and 4 were based in Germany. Of our employees, 1,248 work full-time and 36 work part-time. As of December 31, 2016, we also engaged the services of 77 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,		
	2014	2015	2016
General and administration	57	75	110
Marketing	163	183	228
Research and development	462	609	778
Support and call center	216	252	245
Total	898	1,119	1,361

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, 2017 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 44,839,342 ordinary shares outstanding as of February 28, 2017. We have deemed our ordinary shares subject to stock options that are currently exercisable or exercisable within 60 days of February 28, 2017 or issuable pursuant to RSUs that are subject to vesting conditions expected to occur within 60 days of February 28, 2017 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	
Directors and Executive Officers			
Avishai Abrahami(1)	1,557,891	3.4	%
Giora Kaplan(2)	605,098	1.3	%
Lior Shemesh(3)	87,434	*	
Nir Zohar(4)	396,567	*	
Omer Shai(5)	250,534	*	
Yaniv Even-Haim(6)	33,580	*	
Norbert Becker(7)	11,020	*	
Allon Bloch(7)	2,292	*	
Mark Pluszcz (8)	5,880,490	13.1	%
Yuval Cohen(7)	30,917	*	
Ron Gutler(7)	35,917	*	
Erika Rottenberg(7)	22,952	*	
Roy Saar(9)	223,678	*	
All executive officers and directors as a group (13 persons)	9,138,370	19.6	%
Principal Shareholders			
Entities affiliated with Mangrove Capital Partners(10)	5,880,490	13.1	%
T. Rowe Price Associates Inc. (11)	5,543,422	12.4	%
Entities affiliated with Steadfast Capital Management (12)	3,824,000	8.5	%
FMR LLC (13)	3,601,382	8.0	%

* Less than 1%.

(1) Shares beneficially owned consist of 246,891 shares and outstanding options to purchase 1,311,000 shares that are exercisable within 60 days of February 28, 2017.

(2)