

Matomy Media Group Ltd 2019 interim Results

29 August 2019

Matomy Media Group | 2019 Interim Results

Interim results for the six months period ended 30 June 2019 (Unaudited)

Matomy Media Group Ltd. (the "Company" or "Matomy"), a global advertising technology company, announces its interim results for the six months ended 30 June 2019. In the period spanning from mid-2017 through November 2018, the Company exited all of its data-driven advertising platforms with the exception of Team Internet, a market leading domain advertising and monetization platform.

Matomy's domain monetization activity recorded revenue of \$33.7 million and Adjusted EBITDA of \$4.9 million in H1 2019.

Selected Domain Monetization Activity's Financial Data:

(\$ million)			
	H1 2019	H1 2018	Change
	(Unaudited)		
Revenue	33.7	42.6	(20.9)%
Adjusted gross profit*	8.9	11.9	(25.2)%
Adjusted gross margin*	26.4%	27.9%	(5.4)%
Adjusted EBITDA**	4.9	8.5	(42.4)%

In H1 2019, Matomy's domain monetization activity's revenue and Adjusted EBITDA decreased comparing to H1 2018, as a result of changes in compliance requirements, which resulted in negative impact on the Company's financial results.

Matomy sold the mobile advertising platform Mobfox in November 2018, which is classified for accounting purposes as a "discontinued" activity and is excluded from 2018 results below. All other activities that were sold or otherwise closed are referred as "exited" activities and are included in operations and the chart below.

Matomy Non-GAAP Unaudited Financial Highlights:

Overview of results			
(\$ million)	H1 2019	H1 2018	Change
	(Unaudited)		
Revenue - Domain Monetization Activity and Exited Activities	33.7	54.4	(38.0)%
Adjusted gross profit*	8.9	16.3	(45.4)%
Adjusted gross margin*	26.4%	29.9%	(11.7)%
Adjusted EBITDA **	2.3	3.8	(36.8)%

***Adjusted gross profit/margin**

Adjusted gross profit is a non-GAAP financial measure that Matomy defines as revenues less Direct Media Costs. Matomy believes that adjusted gross profit is a meaningful measure of operating performance because it is frequently used for internal management purposes, indicates the performance of Matomy's solutions in balancing the goals of delivering results to its customers whilst meeting margin objectives, and facilitates a more complete understanding of factors and trends affecting Matomy's underlying revenues performance.

****Adjusted EBITDA**

Direct Adjusted EBITDA is a non-GAAP financial measure that Matomy defines as Adjusted EBITDA directly attributable to a specific business less the applicable Corporate Allocations assigned to such activity.

Business and operating highlights

- Liam Galin Matomy's President and Chief Executive Officer announced his resignation in March 2019.
- The Company remains focused on its domain monetization activity, in which it has a competitive edge, and exited all other activities. Following such sales, Matomy reduced the corporate team and significantly decreased operational overhead.
- Due to changes in compliance requirements, a handful of the Company's publishers have been deactivated, which resulted in negative impact on the Company's projected EBITDA. As a result, the Company recorded goodwill impairment charges of \$15,984 related to its Domain Monetisation reporting unit, using a weighted average cost of capital and a long-term growth rate of 15% and 2%, accordingly (see Note 2e in the Company's financial statements).
- In the six-months period ended 30 June 2019, the Company incurred a net loss of \$16.6 million. In addition, the Company's working capital deficiency amounted to \$32.6 million as of 30 June 2019. The main factors contributing to this loss were goodwill impairment charges of \$16.0 million related to its Domain Monetisation reporting activity, as detailed above (see Note 2e in the Company's financial statements).
- In the six months period ended 30 June 2019, Matomy's domain monetization activity, now the Company's single activity, generated revenues of \$33.7million, (H1 2018: \$42.6 million) and Adjusted EBITDA of \$4.9 million (H1 2018: \$8.5 million).
- Noncompliance with certain covenants in the bonds triggers an increase of interest (see Note 1c(iv) in the Company's financial statements). As a result of such increase in the interest, the updated annual interest rate for the period commencing on the 1 January, 2019 and through 31 December, 2019 will be 6.5%.

Sami Totah, Chairman of the Board of Matomy, said:

“Matomy continues in its efforts to address the interests of all stakeholders of the Company, including by means of selling its subsidiary Team Internet. Despite recent compliance events, Team Internet continues to show profitability and positive cash flow and we believe it will continue to thrive and succeed”

A copy of this announcement will be available on the Matomy website:

<http://investors.matomy.com/rns.aspx>.

About Matomy Media Group Ltd.

Matomy Media Group Ltd. (LSE: MTMY, TASE: MTMY.TA) is a global advertising technology company. Founded in 2006 with headquarters in Tel Aviv and offices in Germany, Matomy is dual-listed on the London and Tel Aviv Stock Exchanges.

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CHAIRMAN'S STATEMENT

Introduction

H1 2019 was a period of regrouping – Matomy completed its reduction of headquarter costs, and Team Internet realigned its activity with revised regulatory requirements.

Operating Performance

In 2019, Matomy showed a decrease in both revenue and EBITDA as it closed all activities outside of domain monetization activity. Following recent compliance events, Team Internet itself, showed a reduction in its financial performance for in H1 2019, but continued to show profitability and positive cash flow.

Outlook

Team Internet has gone through a short challenging period due to changes in its compliance environment. The Company is taking steps to address these changes and to regain its position and momentum.

Sami Totah
Chairman

OPERATIONAL REVIEW

Revenues by Media Channel

The following table sets out Matomy's revenues by business unit for the six month ended 30 June 2019 and 2018, not including the discontinued Mobfox operations. Mobfox's performance in 2018 is detailed in the financial statements, under the discontinued operations note.

(\$ millions)	H1 2019	H1 2018	Change
	(Unaudited)		
Domain monetization	33.7	42.6	(20.9%)
Exited activities (Email, Video, etc)	-	11.8	(100%)
Total	33.7	54.4	(38.1%)

Domain monetization

Domain monetization revenues decreased by \$8.9 million, for the six month ended 30 June 2019 compared to 2018, as the Company removed non-compliant traffic sources.

Team Internet's performance is mainly attributable to its leading technology across its various platforms. The technology yields enhanced performance in comparison to peers and has led to increased recruitment of new clients and higher market share.

FINANCIAL REVIEW

Revenue

As Matomy exited non-core activities and removed revenue sources no longer compliant with key partners' requirements, revenues in H1 2019 decreased compared to H1 2018.

Cost of revenues including exited activities and excluding the discontinued Mobfox operations:

\$ millions, except as otherwise indicated	H1 2019	H1 2018
	(Unaudited)	
Media costs	24.8	38.2
Other cost of revenues	1.7	6.0
Cost of revenues	26.5	44.2
Gross margin (%)	21.4%	18.8%
Adjusted gross margin (non-GAAP) (%)	26.4%	29.8%

Cost of revenues for the Group (excluding the discontinued Mobfox operations) decreased by \$17.7 million, or 40.0%, to \$26.5 million (78.6% of total revenues) for the six months ended 30 June 2019 from \$44.2 million (81.2% of total revenues) last year.

Other cost of revenues, which includes allocated costs, server expenses and amortization of capitalized R&D and intangible assets, also decreased with the closure of non-core activities.

Adjusted gross margin remained largely consistent, decreased slightly by 2.4%.

Non GAAP Operating expenses including exited activities and excluding the discontinued Mobfox operations and excluding exceptional items

\$ millions	H1 2019	H1 2018
	(unaudited)	
Research and development	0.3	1.6
Sales and marketing	1.9	5.1
General and administrative	3.3	2.8
Non GAAP Total operating expenses of continuing operations	5.5	9.5
Total operating expenses as a percentage of revenues (Non-GAAP)	16.3%	17.5%

Operating expenses from continuing operations (Non-GAAP) decreased by \$4.0 million, or 42.1%, to \$5.5 million (H12018: \$9.5 million). Operating expenses as a percentage of revenues were 16.3% (H12018: 17.5%).

The decrease in operating expenses is mainly attributable to the sale of exited activities throughout the year 2018, which lowered general, administrative, sales and marketing costs. This trend is expected to continue through the year 2020.

Financial expenses (income)

Net financial expenses, excluding bond issuance costs, increased by \$1.8 million to \$2.1 million income for the six months ended 30 June 2019 (H12018: \$0.3 million expense). The increase is primarily due to financial expense recorded due to change in the fair value of the convertible bond, off-set in part by decrease in interest expenses on liability to non-controlling interests.

Taxes on income

Taxes on income (benefit) shifted to \$(0.8) million income for the six-month period ended 30 June 2019 (4.6% of loss before taxes), from an expense of \$2.1 million for the same period last year. The low effective tax rate in H1 2019 is due to a \$(2.0) million decrease in deferred taxes as a result in decrease in the value of our domain monetization segment.

Amortization of intangible assets

Amortization expenses from continuing operations were \$0.6 million in H1 2019 and \$2.3 million in H1 2018. The decrease is a result of intangible assets being fully amortised or impaired in prior years and during 2018.

Net loss

Net loss from continuing operations was \$16.6 million in H1 2019 (H1 2018: \$4.5 million), and total net loss was \$16.6 million (H1 2018: \$19.1 million). The net loss attributable to Matomy Media Group's shareholders from continuing operations was \$16.6 million in H1 2019 (H1 2018: \$4.5 million). The Net loss of \$16.6 million in H1 2019 was mainly related to impairment of goodwill of \$16.0 million and one-off bonus expenses of \$1.0 million.

Exceptional items

Matomy views the following items, which were recorded in profit and loss, either as expense or income, as exceptional items which are material to the financial statements and therefore has excluded them from non-GAAP measures:

- Impairments of, goodwill and capitalized R&D amounting to \$16.0 million in H1 2019 and \$0.8 million in H1 2018.
- One-off bonus of \$1.0 million in H1 2019 to be paid to Rainmaker for the extension of the cooperation between Team Internet and its unrelated search engine provider
- Earnout adjustments income of \$0 million in H1 2019 and \$0.5 million in H1 2018.
- Restructuring costs (income) relating to the exited and sold activities amounting to (\$0.2) million in H1 2019 and \$0.8 million in H1 2018.

Liquidity and cash flows

The following table sets out selected cash flow information for the Group for the six months ended 30 June 2019 and 2018.

\$ millions	H1 2019	H1 2018
	(Unaudited)	
Net cash provided by (used in) operating activities	3.8	(11.8)
Net cash provided by (used in) investing activities	1.5	(2.6)

Net cash used in financing activities	(3.7)	(0.6)
Increase (decrease) in cash and cash equivalents	1.6	(15.0)
Cash and cash equivalents at beginning of period	10.3	29.4
Cash and cash equivalents at end of period	11.9	14.4

Cash and cash equivalents decreased by \$2.5 million, or 17%, to \$11.9 million as at 30 June 2019, compared to \$14.4 million as at 30 June 2018.

Cash flows provided by operating activities were 3.8 million in H1 2019. This positive cash flow in H1 2019 is a result of the exit from non-core activities in the end of the year 2018 which was not part of Matomy's activity in 2019

Net cash provided by investing activities of \$1.5 million (H1 2018: used \$(2.6) million) was mainly related to \$1.9 million cash received in H1 2019 from sale of activity in 2018 and decrease in capitalisation of R&D costs and domains investments, reflecting an aggregate increase of \$4.1 million compared to H1 2018.

Cash flows used in financing activities increased to \$3.7 million (H1 2018: \$0.6 million), due to repayment of short term bank credit and bank loans (\$3.7). As at 30 June 2019, Matomy had \$1.6 million in term loans, of those, \$0.9 million are due within one year.

Going concern

The Company requires additional capital in order to fund its liabilities (such liabilities include, among others, liability to non-controlling interest and convertible bond liability). There is no assurance that the Company will be able to obtain such required additional capital. The Company believes that these conditions raise substantial doubt regarding the Company's ability to continue as a going concern. For further details, refer to Note 1c to the Company's financial statements and to the Auditors' Report.

In order for the Company to act in a manner that is intended to address the interests of all stakeholders, the Company has engaged in two parallel processes: first, negotiated a proposed comprehensive plan that will enable it to raise funds from its shareholders, adjust the terms of the Bonds to the Company's current and anticipated financial position and planned future activity, and fund its liability to the minority shareholder in Team Internet, according to main principles that were published by the Company (the "Proposed Plan"), and second, the sale of Team Internet.

In light of the current and anticipated activity and financial position of the Company, it is unlikely that the Proposed Plan in its original structure and terms will be executed, and any potential alternative plan will require adjustments to its terms in order to reflect the current circumstances. The Company continues in its efforts to sell its holdings in Team Internet to potential buyers. There is no certainty that such negotiations will result in a sale transaction or in a binding agreement (see Note 1c in the Company's financial statements).

Projected Sources and Expected Uses of Funds Statement through December 2020

Pursuant to the requirements of the Hybrid Disclosure Model which apply only to dual listed companies that issue bonds on TASE, this announcement includes a special statement of projected sources and expected uses of funds statement through June 2020 (the "**Projected Statement**"). The Projected Statement is not intended to create any continuous on-going disclosure obligation for the Company. See Appendix A. See also "Cautionary statement regarding forward-looking statements" below.

Principal risks

The Directors assess and monitor the key risks of the business on an ongoing basis. The principal risks and uncertainties that could have a material effect on the Group's performance include, among other things, the following:

- As a result of recent dispositions, reflecting Matomy's recently-adopted strategy, Matomy's operations are currently focused exclusively on the domain monetization business through its subsidiary Team Internet. Such a focus creates a significant dependence on a single Group entity, which scope of business is much narrower and less diverse than the business that the Group as a whole used to operate until recently.
- If Matomy fails to comply with the terms or covenants of its debt obligations, our financial position may be adversely affected (and see Note 1c of the financial statements for details about Matomy's noncompliance with certain covenants under its publicly listed bonds and about its negotiations with the bondholders in that regard).
- Matomy is negotiating with Team Internet's minority shareholder, Rainmaker and the holders of its publicly-traded bonds (for description of disputes and negotiations with Rainmaker and the bondholders, see Note 1c of the financial statements). There is no assurance that the negotiations with either Rainmaker and/or the bondholders will be successfully concluded or as to the full implications of not reaching an agreement, or delay in reaching an agreement, with respect to any (or both) of these two main stakeholders.
- Matomy is attempting to sell its subsidiary Team Internet in order to address the interests of all stakeholders. There is no assurance that such efforts will be successfully concluded.
- Matomy announced that it was informed by the Trustee of the bondholders and by Rainmaker that Rainmaker and the representatives of the bondholders are having direct discussions in order to reach a potential settlement by and between Rainmaker and the bondholders, to address a scenario in which the sale of Team Internet will not be consummated. The Company is not a party to such discussions. There is no information about the nature of such settlement.
- Matomy is currently going through changes in its management team thereby adding further managerial challenges in this transitional period.
- Matomy is dependent on relationships with certain third parties with significant market positions; Specifically, the Group's current mode of operation in the domain monetization business is significantly based on the relationship with significant customer.
- Certain internet and technology companies may intentionally or unintentionally adversely affect Matomy's operations, mainly, due to announced or unannounced changes and restrictions by such companies.
- The delivery of digital ads and the recording of the performance of digital ads are subject to complex regulations, legal requirements and industry standards
- Matomy's revenue and operating results are highly dependent on the overall demand for advertising. Factors that affect the amount of advertising spending, such as economic downturns, particularly in the fourth quarter, can make it difficult to predict our revenue and could adversely affect our business
- Seasonal fluctuations in digital advertising activity, which may historically have been less apparent due to our historical core activities and growth, could adversely affect our cash flows and operating results
- Matomy operates in an intensely competitive market that includes companies that have greater financial, technical and marketing resources than we do
- The digital advertising industry is highly competitive and fragmented and currently experiencing consolidation, resulting in increasing competition
- Matomy relies on the continued compatibility of its technological platforms with third-party operating systems, software and content distribution channels
- Matomy may be subject to third-party claims brought against it
- Matomy has historically derived the majority of its revenues from customers that use its solutions for display marketing campaigns which are now rapidly declining

- The digital advertising industry remains susceptible to fraud
- Matomy is an Israeli-domiciled company and as such the rights and obligations of shareholders are governed by Israeli law and differ in some respects from English law
- As a result of the announcement of Brexit, the British government has begun negotiating the terms of the U.K.'s future relationship with the E.U. Although it is unknown what those terms will be, it is possible that these changes may affect our operations and financial results.

Cautionary statement regarding forward-looking statements

This announcement includes certain forward-looking statements, forecasts, estimates, projections, and opinions. These forward-looking statements may be identified by the fact that they do not relate only to historical or current facts or the use of forward-looking terminology, including the terms “believes”, “estimates”, “plans”, “projects”, “anticipates”, “expects”, “intends”, “may”, “will” or “should” or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. Forward-looking statements include statements regarding the Proposed Plan, the negotiations with and between Rainmaker and the bondholders, the business strategy, the sale of Team Internet, objectives, financial condition, results of operations and market data of the Company and its subsidiaries (the “Group”), as well as any other statements that are not historical facts. These statements reflect the Company’s current view concerning future events and are based on assumptions made by the Company (including, without limitation, assumptions concerning currency exchange rate fluctuations, requirements of additional capital, costs of sale or closure of various operations and changes to regulations) and information currently available to the Company.

Although the Company considers that these views and assumptions are reasonable, by their nature, forward-looking statements involve unknown risks, uncertainties, assumptions and other factors because they relate to events and depend on circumstances that will occur in the future whether or not outside the control of the Group. These factors, risks, uncertainties, and assumptions could cause actual outcomes and results to be materially different from those projected. Past performance cannot be relied upon as a guide to future performance and should not be taken as a representation that trends or activities underlying past performance will continue in the future. No representation is made or will be made that any forward-looking statements will be achieved or will prove to be correct. These factors, risks, assumptions, and uncertainties expressly qualify all subsequent oral and written forward-looking statements attributable to the Company or persons acting on its behalf.

The forward-looking statements speak only as of the date of this announcement. Each of the Company and its respective affiliates expressly disclaim any obligation or undertaking to update, review or revise any forward-looking statement and disclaims any obligation to update its view of any risks or uncertainties described herein, or to publicly announce the result of any revisions to the forward-looking statements made in this announcement to reflect any change in the Company’s expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based or otherwise, except as required by law.

No statement in this announcement is intended or is to be construed, as a profit forecast or estimate or to be interpreted to mean that earnings per Company share or overall earnings for the current or future financial years will necessarily match or exceed the historical published earnings per Company share or overall earnings.

Directors' responsibility

The Directors confirm that to the best of their knowledge the condensed set of reviewed financial statements, which has been prepared in accordance with US GAAP principles, gives a true and fair view of the assets, liabilities, financial position and profit or loss of the undertakings included in the consolidation as a whole as required by DTR 4.2.4R and the interim management report includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R

Sami Totah
Chairman

Ilan Tamir
COO

Reconciliation of GAAP measures to non-GAAP measures

The following table presents a reconciliation of Adjusted gross profit to gross profit and to revenues, the most directly comparable financial measures calculated in accordance with US GAAP, for the periods indicated:

\$ million	H1 2019	H1 2018
	(Unaudited)	
Revenues from continuing operations	33.7	54.4
Direct media costs	(24.8)	(38.2)
Adjusted gross profit	8.9	16.2
Adjusted gross margin (%)	26.4%	29.8%
Other cost of revenues	(1.7)	(6.0)
Gross profit	7.2	10.2

The following table presents a reconciliation of Adjusted EBITDA from continuing operations to net loss from continuing operations, the most directly comparable financial measure calculated in accordance with US GAAP, for the periods indicated:

\$ million	H1 2019	H1 2018
	(Unaudited)	
Net loss from continuing operations	(16.6)	(4.5)
Taxes on income (benefit)	(0.8)	2.1
Financial expenses (income) , net	2.1	0.3
Bond issuance costs	-	1.6
Depreciation and amortization	0.9	3.6
Share-based compensation (cash and non-cash) expenses	(0.1)	(0.4)
Exceptional items	16.8	1.1

Adjusted EBITDA	2.3	3.8
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Matomy Media Group Ltd. - Sources and Expected Uses of Funds Statement (Solo, excluding Team Internet) - through June 2021

מטומי מדיה גרופ בע"מ - דוח מקורות ושימושים צפויים - (סולו, ללא טים אינטרנט) - עד 30 ביוני 2021

in thousands of USD

באלפי דולר

	Q2-2019 actual	Q3-2019 projected	Q4-2019 projected	2020 projected	Q1-2021 projected	Q2-2021 projected	
Opening balance	\$ 7,347	\$ 5,451	\$ 3,913	\$ (8,317)	\$(17,486)	\$(16,073)	יתרת פתיחה
Sources:							מקורות:
Cash flow from Operations:							תזרים מפעילות שוטפת:
Working Capital Mobfox activity	\$ (144)	\$ (710)					הון חוזר מובפוקס
Tax Receivable - Matomy USA	\$ 625		\$ 920				החזר מס משלטונות המס האמריקאיים
Tax Receivable - Matomy KG			\$ 3,237	\$ 1,180	\$ -	\$ -	החזר מס משלטונות המס הגרמניים
Tax paid in UK and USA	\$ (75)						מסים ששולמו באנגליה ובארצות הברית
Dividend from Mobfox Austria	\$ 85						דיבידנד מובפוקס אוסטריה
Dividend from Team Internet			\$ 7,214	\$ 8,073	\$ 2,018	\$ 2,018	דיבידנד מטים אינטרנט
Withholding tax on Team Internet Dividend		\$ -	\$ (1,180)	\$ (1,320)	\$ (330)	\$ (330)	ניכוי מס במקור דיבידנד טים אינטרנט
Cash flow from Finance activity:							תזרים מפעילות מימון:
Issuance Cost	\$ (427)						עלויות הנפקה
Cash flow from Investment activity:							תזרים מפעילות השקעה:
Sale of myDSP - last payment	\$ 250						מכירת myDSP
	\$ 314	\$ (710)	\$10,191	\$ 7,933	\$ 1,688	\$1,688	
Expected Usage of Funds:							שימושים צפויים:
Cash used for Operations:	\$ (490)	\$ (438)	\$ (438)	\$ (1,100)	\$(275)	\$(275)	תזרים לפעילות שוטפת:
One time Cost of Operations	\$ (523)	\$ (191)					עלות תפעולית חד-פעמית
Legal cost of bond settlement	\$(243)	\$(200)	\$(100)				עלות הסדר החוב - משפטיות
Bond interest due	\$(954)		\$(920)	\$(1,841)	\$ -	\$(468)	ריבית חצי שנתי לבעלי האגה
Cash flow used for Financing activity:							תזרים לפעילות מימון:
Bond principal payment				\$(14,162)	\$ -	\$ -	החזר קרן לאג"ה
Rainmaker payments			\$(20,962)				תשלומים ל-Rainmaker
	\$(2,209)	\$(829)	\$(22,420)	\$(17,103)	\$(275)	\$(743)	
Closing balance	\$5,451	\$3,913	\$(8,317)	\$(17,486)	\$(16,073)	\$(15,128)	יתרת סגירה

Assumptions:

1. The Company's Sources and Expected Uses of Funds Statement that was included in the Company's annual report for the year ended on December 2018, was based on a proposed plan for a settlement between the Company, the bondholders, Rainmaker and any other relevant stakeholder, which was based on the updated key features published on January 9, 2019, and the clarifications that were published on January 23, 2019 ("Proposed plan"). In light of the current and anticipated activity and financial position of the Company, it is unlikely that the Proposed Plan in its original structure and terms will be executed, and any potential alternative plan will require adjustments to its terms in order to reflect the current circumstances. Therefore, the Proposed Plan was not implemented in this statement.

2. In accordance with the share purchase agreement with Rainmaker, in which the Company, through its UK and German subsidiaries, currently holds 90% of the share capital, the Company was required to buy the remaining 10% stake in Team Internet (the "Third Sale Exit") from Rainmaker on November 30, 2018. The Company failed to pay the amount due on 30 November 2018. Failure by the Company to pay the consideration for the Third Sale Exit, triggers certain rights of Rainmaker, among other remedies, such as interest on late payment and a right to repurchase some or all of the Company's shares in Team Internet, at Rainmaker's discretion, at a price of 60% of the original purchase price paid by the Company on such shares ("Repurchase Option"). Such price, after giving effect to the foregoing discount and assuming all shares are purchased is approximately EUR 31,688 thousand.

The agreement with Rainmaker also provides that in the event that it can be demonstrated that the failure by the Company, through its UK and German subsidiaries, to make the payment is due to lack of funds despite any and all necessary efforts of the Company to obtain such funds (including by taking loans and selling assets), **then the sole remedy available to Rainmaker is the exercise of the Repurchase Option.**

However, the Company adopted a conservative approach and included a payment to Rainmaker under the "Cash flow used for Financing activity", in light of an alleged debt claimed by Rainmaker due to it according to the terms of the share purchase agreement with Rainmaker.

3. The amounts of dividends that may be distributed by Team Internet to Matomy depend on the percentage holdings of Matomy in Team Internet and on the dividend policy at the relevant time.

4. Timing of distribution of Team Internet's dividends may vary based on liquidity limitations.

5. With respect to future dividend distributions by Team Internet, the Company adopted a conservative approach: (a) the Company adjusted the dividend distributions from Team Internet during 2019 and 2020 according to and based on the actual results of Team Internet in 2018; (b) the dividend distribution were adjusted to reflect a conservative scenario that take into account the recent developments in the Company's activity, as were reported by the Company on June 20, 2019.

6. With respect to the payment of Bond Principal, we have assumed that the Bonds continue to be repaid according to its payment schedule, therefore, 50% of the Bond Principal will be paid On December 31, 2020.

Unreviewed Statement

The statement contains unreviewed financial measures that do not have a standardized meaning prescribed by GAAP.

Cautionary statement regarding forward-looking statements

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Although the Company considers that these views and assumptions are reasonable, by their nature, forward-looking statements involve unknown risks, uncertainties, assumptions and other factors because they relate to events and depend on circumstances that will occur in the future whether or not outside the control of the Group. These factors, risks, uncertainties and assumptions could cause actual outcomes and results to be materially different from those projected. Past performance cannot be relied upon as a guide to future performance and should not be taken as a representation that trends or activities underlying past performance will continue in the future. No representation is made or will be made that any forward-looking statements will be achieved or will prove to be correct. These factors, risks, assumptions and uncertainties expressly qualify all subsequent oral and written forward-looking statements attributable to the Company or persons acting on its behalf.

The forward-looking statements speak only as of the date of this announcement. Each of the Company and its respective affiliates expressly disclaim any obligation or undertaking to update, review or revise any forward-looking statement and disclaims any obligation to update its view of any risks or uncertainties described herein or to publicly announce the result of any revisions to the forward-looking statements made in this announcement to reflect any change in the Company's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based or otherwise, except as required by law.

Matomy Media Group Ltd. - Gap analysis - comparison of Q2, 2019 actual cash flow compared to the Sources and Expected Uses of Funds Statement projection published on March 31, 2019

מטומי מדיה גרופ בע"מ - טבלת השוואה בין נתוני רבעון 2 של שנת 2019 לעומת דוח מקורות ושימושים צפויים שפורסם ב-31 במרץ 2019

in thousands of USD

באלפי דולר

Q2 - 2019 **Q2 - 2019**
Projected **Actual**

Sources:

מקורות:

Cash flow from Operations:					תזרים מפעילות שוטפת:
Working Capital Mobfox activity	Note 1 below	\$ (854)	\$ (144)	1 הערה למטה	הון חוזר מובפוקס
Tax Receivable - Matomy USA	Note 2 below	\$ 658	\$ 625	2 הערה למטה	החזר מס משלטונות המס האמריקאיים
Tax paid in UK and USA		\$ -	\$ (75)		מסים ששולמו באנגליה ובארצות הברית
Dividend from Team Internet	Note 3 below	\$ 3,710	\$ -	3 הערה למטה	דיבידנד מטם אינטרנט
Withholding tax on Team Internet Dividend	Note 3 below	\$ (607)	\$ -	3 הערה למטה	ניכוי מס במקור דיבידנד טים אינטרנט
Cash flow from Finance activity:					תזרים מפעילות מימון:
Rights Issue	Note 9 below	\$ 10,000	\$ -	9 הערה למטה	הנפקת זכויות
Bond Series A Expansion	Note 9 below	\$ 2,000	\$ -	9 הערה למטה	הרחבת סדרת האגח
Issuance Cost	Note 7 below	\$ (1,000)	\$(427)	7 הערה למטה	עלויות הנפקה
Expected Usage of Funds:					שימושים צפויים:
Ongoing operations	Note 6 below	\$ (438)	\$ (490)	6 הערה למטה	עלות תפעולית שוטפת
One time Cost of Operations	Note 4 below	\$(714)	\$(523)	4 הערה למטה	עלות תפעולית חד-פעמית
Legal cost of bond settlement	Note 4 below	\$(329)	\$(243)	4 הערה למטה	עלות הסדר החוב - משפטיות
Bond interest due	Note 5 below	\$(1,057)	\$ (954)	5 הערה למטה	ריבית חצי שנתית לבעלי האגח
Cash flow used for Financing activity:					תזרים לפעילות מימון:
Bond principal payment	Note 9 below	\$(3,500)	\$ -	9 הערה למטה	החזר קרן לאג"ח
Rainmaker payments	Note 9 below	\$(13,500)	\$ -	9 הערה למטה	Rainmaker תשלומים ל-

Note

הסבר

1	The company paid suppliers less than expected in Q2, and will pay outstanding debts during Q3.			1	החברה שילמה לספקים פחות מהמצופה, ותשלם חובות שנשארו פתוחים במהלך רבעון 3.
2	Company collected an amount which was slightly lower than expected.			2	החברה גבתה סכום נמוך במעט מהצפוי.
3	Due to continued discussions regarding the sale of Team Internet, the dividend distribution was postponed from Q2 to Q3.			3	בשל התמשכות השיחות בנושא מכירת טים אינטרנט, חלוקת הדיבידנד נדחתה מרבעון 2 לרבעון 3.
4	Partial amount was paid in Q2, the rest will be paid in Q3.			4	חלק מהסכום שולם ברבעון 2, השאר ישולם ברבעון 3.
5	The interest payment to the bondholders was lower than expected as the Proposed Plan was not implemented.			5	תשלום הריבית היה נמוך מהצפוי מכיוון שלא התממש הסדר החוב במתכונת שציקריה פורסמו ביום 9 בינואר 2019 וההבהרות שפורסמה לה ביום 23 בינואר 2019 ("תכנית ההסדר המוצעת").
6	This cost was slightly higher than planned.			6	עלות זו היתה גבוהה במעט מהצפוי.
7	This is the partial cost of preparing the prospectus which was required for the execution of the Proposed Plan; this process was put on hold after the company received the Purchase Offer, as was published on April 2019.			7	עלות הכנת התסקיף שנדרש לצורך הוצאתה לפועל של תכנית ההסדר המוצעת. תהליך זה לא הושלם עקב קבלת הצעת הרכישה מריינימייקר ורוכש פוטנציאלי, כפי שפורסמה באפריל 2019.
8	Unanticipated tax expenses.			8	הוצאות מס לא צפויות.

9	<p>Since it is unlikely that the Proposed Plan in its original structure and terms will be executed, its key features were removed from the statement above, including the anticipated Capital Raise from the Shareholders, anticipated Early Payment to the Bondholders, and the amount that the Company anticipated paying Rainmaker in Q2. Instead, the alleged debt claimed by Rainmaker due to it according to the terms of the share purchase agreement with Rainmaker was added in Q3</p>			<p>מאחר והסבירות כי תכנית ההסדר המוצעת במתכונתה הנוכחי תצא לפועל הינה נמוכה, הוסרה ההתייחסות לגיוס ההון מבעלי מניות, לפרעון המוקדם למחזיקי האג"ח וכן לסכום שהיה צריך להיות משולם לריינמייקר על פי התכנית הנ"ל. כמו כן הוזב לכאורה של החברה לריינמייקר, כפי שנטען על ידי ריינמייקר, על פי תנאי הסכם רכישת המניות עימם, התוסף לרבעון 3.</p>	9
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MATOMY MEDIA GROUP LTD. AND ITS SUBSIDIARIES

INTERIM CONSOLIDATED FINANCIAL INFORMATION

AS OF 30 JUNE 2019

U.S. DOLLARS IN THOUSANDS

UNAUDITED

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The Board of Directors
Matomy Media Group Ltd.

Review Report of Independent Auditors

We have reviewed the consolidated financial information of Matomy Media Group Ltd. and its subsidiaries (collectively "the Company"), which comprise the consolidated balance sheet as of 30 June 2019, and the related consolidated information of operations, changes in shareholder's equity and cash flows for the six-month periods ended 30 June 2019 and 2018.

Management's Responsibility for the Financial Information

Management is responsible for the preparation and fair presentation of the interim financial information in conformity with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of interim financial information in conformity with U.S. generally accepted accounting principles.

Auditor's Responsibility

Our responsibility is to conduct our review in accordance with auditing standards generally accepted in the United States applicable to reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States, the objective of which is the expression of an opinion regarding the financial information. Accordingly, we do not express such an opinion.

Conclusion

Based on our review, we are not aware of any material modifications that should be made to the consolidated financial information referred to above for it to be in conformity with U.S. generally accepted accounting principles.

Emphasis of Matter Regarding Going Concern

The accompanying interim financial information have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1a to the interim financial information, during the six-month period ended 30 June, 2019 the Company incurred a net loss of \$ 16,572, and its working capital deficiency amounted to \$ 32,598 as of 30 June, 2019. These conditions, among others, raise substantial doubts about the Company's ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding these matters are also described in Note 1c. The interim financial information do not include any adjustments that might result from the outcome of this uncertainty.

Tel Aviv, Israel
August 29 , 2019

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

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	30 June 2019	31 December 2018
	Unaudited	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 11,891	\$ 7,167
Restricted cash	-	3,134
Trade receivables, net	3,821	5,947
Government authorities	5,683	9,009
Other receivables and prepaid expenses	1,610	3,474
Discontinued operation	287	4,634
Total current assets	23,292	33,365
LONG-TERM ASSETS:		
Property and equipment, net	1,414	1,413
Operating lease right-of-use asset	1,907	-
Domains	11,886	11,904
Other intangible assets, net	828	1,451
Goodwill	26,295	42,279
Other assets	54	59
Total long-term assets	42,384	57,106
Total assets	\$ 65,676	\$ 90,471

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

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	<u>30 June 2019</u>	<u>31 December 2018</u>
	<u>Unaudited</u>	
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Liability to non-controlling interest	\$ 20,962	\$ 19,375
Short-term bank credit and current maturities of bank loans	2,508	5,752
Trade payables	6,712	7,498
Employees and payroll accrual	1,153	1,813
Convertible bond at fair value (principal of ILS 101,000 thousands)	19,231	18,540
Operating lease liabilities, accrued expenses and other liabilities	4,799	6,057
Discontinued operation	525	3,928
	<u>55,890</u>	<u>62,963</u>
LONG-TERM LIABILITIES:		
Deferred tax liabilities	526	2,727
Bank loans, net of current maturities	656	1,116
Operating lease liabilities	1,542	-
Other liabilities	188	318
	<u>2,912</u>	<u>4,161</u>
EQUITY:		
Matomy Media Group Ltd. shareholders' equity:		
Ordinary shares	254	254
Additional paid-in capital	86,130	86,031
Accumulated other comprehensive loss	(3,174)	(3,174)
Accumulated deficit	(70,347)	(53,788)
Treasury shares	(6,231)	(6,231)
	<u>6,632</u>	<u>23,092</u>
<u>Total</u> Matomy Media Group Ltd. shareholders' equity	<u>6,632</u>	<u>23,092</u>
Non-controlling interests	242	255
	<u>6,874</u>	<u>23,347</u>
<u>Total</u> equity	<u>6,874</u>	<u>23,347</u>
<u>Total</u> liabilities and equity	<u>\$ 65,676</u>	<u>\$ 90,471</u>

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

CONSOLIDATED INFORMATION OF OPERATIONS**U.S. dollars in thousands except share and per share data**

	Six months ended 30 June		Year ended December 31
	2019	2018	2018
	Unaudited		Audited
Revenues	\$ 33,701	\$ 54,416	\$ 88,734
Cost of revenues	26,496	44,239	69,867
Gross profit	7,205	10,177	18,867
Operating expenses			
Research and development	289	1,644	2,266
Selling and marketing	1,879	5,143	7,694
General and administrative	3,339	2,837	6,125
Impairment, net of change in fair value of contingent consideration	15,984	259	7,435
Other expenses (Refer to Note 1c (ii))	1,000	-	-
Restructuring costs	-	843	1,923
Loss from sale of activity	-	-	1,777
Total operating expenses	22,491	10,726	27,220
Operating loss from continuing operations	(15,286)	(549)	(8,353)
Convertible bond issuance costs	-	1,588	1,588
Financial expenses (income), net	2,076	319	(6,691)
Loss from continuing operations before taxes on income	(17,362)	(2,456)	(3,250)
Tax on income (benefit)	(790)	2,052	3,683
Loss from continuing operations before equity losses of affiliated companies	(16,572)	(4,508)	(6,933)
Gain on remeasurement to fair value, gain from sale of affiliated companies and equity gains of affiliated companies, net	-	-	75
Loss from continuing operations	(16,572)	(4,508)	(6,858)
Loss from discontinued operations, net	-	(14,581)	(39,787)
Net loss	(16,572)	(19,089)	(46,645)
Net loss attributable to redeemable non-controlling interests in subsidiaries	-	44	-
Net loss attributable to other non-controlling interests in subsidiary	13	-	53
Net loss attributable to Matomy Media Group Ltd. before accretion of redeemable non-controlling interest from continuing operations	(16,559)	(4,464)	\$ (6,805)
Net loss attributable to Matomy Media Group Ltd. before accretion of redeemable non-controlling interest from discontinued operations	-	(14,581)	\$ (39,787)
Net loss attributable to Matomy Media Group Ltd. before accretion of redeemable non-controlling interest	(16,559)	(19,045)	\$ (46,592)
Basic and diluted loss per ordinary share from continuing operations	\$ (0.17)	\$ (0.05)	\$ (0.07)
Basic and diluted loss per ordinary share from discontinued operations	\$ -	\$ (0.15)	\$ (0.41)
Basic and diluted loss per ordinary share	\$ (0.17)	\$ (0.20)	\$ (0.48)
Weighted average number of shares used in computing basic and diluted net loss per share	97,161,102	96,399,200	96,511,986

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

CONSOLIDATED INFORMATION OF CHANGES IN SHAREHOLDERS' EQUITY

US dollars in thousands, except share data

	Ordinary shares		Additional paid-in capital	Accumulated other comprehensive Loss	Accumulate deficit	Treasury shares	Total Matomy Media Group Ltd. shareholders' equity	Non- controlling interests	Total equity
	Number	Amount							
Balance as of 1 January 2019	98,372,339	\$ 254	\$ 86,031	\$ (3,174)	\$ (53,788)	\$ (6,231)	\$ 23,092	\$ 255	\$ 23,347
Stock-based compensation	-	-	99	-	-	-	99	-	99
Net loss	-	-	-	-	(16,559)	-	(16,559)	(13)	\$ (16,572)
Balance as of 30 June 2019 (unaudited)	<u>98,372,339</u>	<u>\$ 254</u>	<u>\$ 86,130</u>	<u>\$ (3,174)</u>	<u>\$ (70,347)</u>	<u>\$ (6,231)</u>	<u>\$ 6,632</u>	<u>\$ 242</u>	<u>\$ 6,874</u>
	Ordinary shares		Additional paid-in capital	Accumulated other comprehensive Loss	Accumulate deficit	Treasury shares	Total Matomy Media Group Ltd. shareholders' equity	Non- controlling interests	Total equity
	Number	Amount							
Balance as of 1 January 2018	97,535,023	\$ 252	85,931	\$ (3,174)	\$ (7,196)	\$ (6,231)	\$ 69,582	\$ 308	\$ 69,890
Stock-based compensation	-	-	(8)	-	-	-	(8)	-	(8)
Exercise of options and vesting of restricted share units	124,500	*) -	*) -	-	-	-	-	-	*) -
Net loss	-	-	-	-	(19,045)	-	(19,045)	(44)	(19,089)
Balance as of 30 June 2018 (unaudited)	<u>97,659,523</u>	<u>\$ 252</u>	<u>\$ 85,923</u>	<u>\$ (3,174)</u>	<u>\$ (26,241)</u>	<u>\$ (6,231)</u>	<u>\$ 50,529</u>	<u>\$ 264</u>	<u>\$ 50,793</u>

*) Represents an amount lower than \$ 1.

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

CONSOLIDATED INFORMATION OF CHANGES IN SHAREHOLDERS' EQUITY

US dollars in thousands, except share data

	Ordinary shares		Additional paid-in capital	Accumulated other comprehensive Loss	Accumulate deficit	Treasury shares	Total Matomy Media Group Ltd. shareholders' equity	Non- controlling interests	Total equity
	Number	Amount							
Balance as of 1 January 2018	97,535,023	\$ 252	\$ 85,931	\$ (3,174)	\$ (7,196)	\$ (6,231)	\$ 69,582	\$ 308	\$ 69,890
Stock-based compensation	-	-	102	-	-	-	102	-	102
Exercise of options and vesting of restricted share units	837,316	2	(2)	-	-	-	-	-	-
Net loss	-	-	-	-	(46,592)	-	(46,592)	(53)	(46,645)
Balance as of 31 December 2018 (audited)	<u>98,372,339</u>	<u>\$ 254</u>	<u>\$ 86,031</u>	<u>\$ (3,174)</u>	<u>\$ (53,788)</u>	<u>\$ (6,231)</u>	<u>\$ 23,092</u>	<u>\$ 255</u>	<u>\$ 23,347</u>

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

CONSOLIDATED INFORMATION OF CASH FLOWS

US dollars in thousands

	Six months ended		Year ended
	30 June		December 31
	2019	2018	2018
	<u>Unaudited</u>		
<u>Cash flows from operating activities:</u>			
Net loss	\$ (16,572)	\$ (19,089)	\$ (46,645)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	960	5,663	8,647
Stock-based compensation	99	(8)	102
Impairment of intangible assets, goodwill, and capitalized research and development	15,984	10,200	38,580
Change in deferred tax, net	(2,187)	(469)	(664)
Change in accrued interest and effect of foreign exchange differences on long term loans and leases liability	(67)	(109)	(167)
Gain on remeasurement to fair value, gain from sale of affiliated companies and equity losses of affiliated companies, net	-	-	(75)
Fair value revaluation - convertible bond	691	(3,532)	(11,390)
Decrease in trade receivables	6,473	13,353	22,679
Decrease (increase) in other receivables and prepaid expenses	116	(28)	(186)
Decrease in other assets	6	-	57
Decrease in trade payables	(4,189)	(11,311)	(17,796)
Changes in fair value of payment obligation related to acquisitions recognized in earnings	1,587	1,030	260
Decrease (increase) in tax receivable	3,326	(3,340)	(3,399)
Decrease in employees and payroll accruals	(660)	(1,678)	(2,294)
Decrease in accrued expenses and other liabilities	(1,714)	(2,558)	(4,818)
Loss from sale of activity	-	-	1,835
Loss (gain) from disposal of property and equipment and domains	(47)	-	847
Other	3	79	(57)
Net cash provided by (used in) operating activities	<u>3,809</u>	<u>(11,797)</u>	<u>(14,484)</u>
<u>Cash flows from investing activities:</u>			
Sale of activity	1,839	-	6,510
Change in long-term deposit	-	66	66
Sale of investment in affiliated company	-	44	149
Purchase of property and equipment	(86)	(103)	(206)
Purchase of domains	-	(1,139)	(1,134)
Proceeds from sale of domains and property and equipment	-	-	76
Capitalization of research and development costs	(298)	(1,499)	(2,258)
Net cash provided by (used in) investing activities	<u>1,455</u>	<u>(2,631)</u>	<u>3,203</u>

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

CONSOLIDATED INFORMATION OF CASH FLOWS

US dollars in thousands

	Six months ended 30 June		Year ended December 31
	2019	2018	2018
	Unaudited		
<u>Cash flows from financing activities:</u>			
Short-term bank credit, net	\$ (2,345)	\$ 1,706	\$ (4,322)
Exercise of options	-	*)	*)
Issuance of convertible bond	-	29,930	29,930
Repayment of bank loans	(1,332)	(9,240)	(10,019)
Additional payments related to previous acquisitions	-	(146)	(681)
Acquisition of non-controlling interest	-	(20,146)	(20,146)
Dividend paid to non-controlling interest	-	(2,711)	(2,711)
Net cash used in financing activities	(3,677)	(607)	(7,949)
Effect of exchange rate differences on cash	3	-	-
Increase (decrease) in cash, cash equivalents and restricted cash	1,590	(15,035)	(19,230)
Cash, cash equivalents and restricted cash at beginning of period	10,301	29,407	29,531
Cash, cash equivalents and restricted cash at end of period	<u>\$ 11,891</u>	<u>\$ 14,372</u>	<u>\$ 10,301</u>
<u>Non-cash investing activities:</u>			
Receivable in connection with acquisitions	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,839</u>

*) represents an amount less than \$ 1.

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

NOTE 1:- GENERAL

- a. Matomy Media Group Ltd. ("Matomy") together with its subsidiaries (collectively - the "Company") offered and provided a portfolio of proprietary programmatic data-driven platforms focusing on two core activities of domain monetization and mobile digital advertising to advertisers, advertising agencies, Apps developers and domain owners.

Matomy was incorporated in 2006. The Company's markets are located primarily in the United States and Europe. The Company's shares are traded on the London Stock Exchange and also on the Tel Aviv Stock Exchange.

In the period spanning from mid-2017 through November 2018, the Company exited all of its data-driven advertising platforms with the exception of Team Internet AG ("Team Internet"), a market leading domain advertising and monetization platform, with two key activities: (i) a proprietary domain parking platform that enables customers to monetize their domain portfolios; and (ii) a proprietary self-serve platform that allows publishers and advertisers to buy and sell traffic on a smart programmatic real time bidding model. The Company, through its UK and German subsidiaries, currently holds 90% of the share capital of Team Internet. (Refer to Note 1c(ii)).

In the six-months period ended 30 June 2019, the Company incurred net loss of \$ 16,572. In addition, the Company's working capital deficiency amounted to \$ 32,598 as of 30 June 2019. The main factor contributing to this loss were goodwill impairment charges of \$ 15,984 related to its Domain Monetisation reporting activity (see Note 2e).

- b. In June 2019, due to changes in compliance requirements, a handful of the Company's publishers have been deactivated, which resulted in negative impact on the Company's financial results (see also Note 2e). The immediate impact resulted in a reduction of approximately \$ 700 in the second quarter profitability, and a further reduction in its projected profitability going forward.
- c. i. The Company requires additional capital in order to fund its liabilities. Such liabilities include, among others, liability to non-controlling interest (minority shareholder in Team Internet) and convertible bond liability (as further described in subsections ii and iii below). There is no assurance that the Company will be able to obtain such require additional capital.

In order for the Company to act in a manner that is intended to address the interests of all stakeholders, the Company has engaged in two parallel processes: first, negotiated a proposed comprehensive plan that will enable it to raise funds from its shareholders, adjust the terms of the Bonds to the Company's current and anticipated financial position and planned future activity, and fund its liability to the minority shareholder in Team Internet, according to main principles that were published by the Company (the "Proposed Plan"), and second, the sale of Team Internet.

In light of the current and anticipated activity and financial position of the Company, it is unlikely that the Proposed Plan in its original structure and terms will be executed, and any potential alternative plan will require adjustments to its terms in order to reflect the current circumstances.

NOTE 1:- GENERAL (Cont.)

To date, no agreement has been signed and there can be no assurance with respect to the outcome of such discussions between the Company and the various stakeholders, including the bondholders.

ii. In accordance with the share purchase agreement dated December 2017 (the "2017 SPA") with the minority shareholders of Team Internet, Rainmaker Investments GmbH ("Rainmaker"), the Company was required to buy the remaining 10% stake in Team Internet (the "Third Sale Exit") from Rainmaker on November 30, 2018. The Company failed to pay the amount due on 30 November 2018, which is claimed by Rainmaker to be equal to EUR 16,015 thousand. Failure by the Company to pay the consideration for the Third Sale Exit, triggers certain rights of Rainmaker, among other remedies, such as interest on late payment and a right to repurchase some or all of the Company's shares in Team Internet, at Rainmaker's discretion, at a price of 60% of the original purchase price paid by the Company on such shares. Such price, after giving effect to the foregoing discount and assuming all shares are purchased is approximately EUR 31,688 thousand. The agreement with Rainmaker also provides that in the event that it can be demonstrated that the failure by the Company, through its UK and German subsidiaries, to make the payment is due to lack of funds despite any and all necessary efforts of the Company to obtain such funds (including by taking loans and selling assets), then the sole remedy available to Rainmaker is the exercise of the repurchase option. If the failure to pay is not as specified above, then Rainmaker is not limited in the legal remedies that it may pursue.

The shares purchased by the Company are detailed below:

Number of shares	Original Purchase price per share	Percentage of the total Team Internet's share capital
14,706	EUR 153.20	20%
36,765	EUR 535.84	50%
7,353	EUR 1,715.67	10%
7,353	EUR 2,481.33	10%

On April 4, 2019, the Company received an offer to sell all of its shares in Team Internet (90%), to a German Private Equity fund and Rainmaker, (the "Sale Offer" and the "Potential Purchaser", respectively), however on August 20, 2019 the Company received a formal confirmation that the Potential Purchaser is terminating the discussions regarding the sale of Team Internet.

The Company is therefore pursuing other potential alternatives, and in this regard has engaged in negotiations, in collaboration with Rainmaker, with other potential purchasers of Team Internet. Such negotiations have not yet resulted in a binding offer and there is no certainty that such negotiations will result in such an offer or in a binding agreement.

In addition, under the 2017 SPA, it was agreed by the parties on a one-off bonus of \$1,000 to be paid to Rainmaker for the extension of the cooperation between Team Internet and its unrelated search engine provider beyond 31 July 2019. In March 2019, the Company expected payment for the search engine renewal bonus, and therefore a provision was recorded and the expense was recorded as other expense in the information of operation for the six-month period ended 30 June 2019.

NOTE 1:- GENERAL (Cont.)

iii. Beginning in the fourth quarter of 2018, the Company has been holding discussions with the trustee of the outstanding Bonds (the "**Trustee**") and with the representatives and legal counsel of the bondholders in order to reach an agreement to adjust certain terms of the Bonds.

The bondholders have, among other things, made a claim that they are entitled, at the fourth quarter of 2018, to call the Bonds for immediate repayment based on the "material adverse effect on the Company's business" clause, comparing the then current Company's business conditions and the Company's business conditions as of the bond's issuance date. The Company rejected this claim.

During January 2019, the Trustee issued a voting proxy, according to which the bondholders are requested to either vote in favor of an indicative non-binding approval of the Company's Proposed Plan or demand immediate repayment of the Bonds. On 29 January 2019, the majority of the bondholders voted in favor of the Proposed Plan of the Company and resolved not to require immediate repayment of the Bonds pursuant to that voting proxy. To date no agreement was reached.

Due to the recent developments, as described in Note 1c(i) above, there is uncertainty regarding the feasibility of the execution of the Proposed Plan in its current structure and terms and that it is most likely that the Proposed Plan will require adjustments in order to adapt it to the current and anticipated activity and financial position of the Company.

On July 1, 2019 the Trustee has published a notice to convene a bondholders meeting. On the agenda of such meeting was a resolution of a contingent demand of an immediate repayment of the bonds. According to the notice, if the bondholders approve the resolution on the agenda by a simple majority, and the Company does not make a partial early repayment of the bonds, in the amount of \$4,500, within 45 days following the day of the publication of the results of such bondholders meeting, the trustee will demand an immediate and full repayment of the bonds ("Proposed Repayment Demand Resolution").

On July 7, 2019 the Company sent a letter to the Trustee in which it argued against such proposed resolution and emphasised the difficulties that such proposed resolution entailed and its potential implications.

On July 9, 2019 the Trustee has published the results of such bondholders' vote, according to which the Proposed Repayment Demand Resolution was rejected.

The Company continues to seek a solution for this situation, and is working closely with the Bondholders' representative to achieve an agreed upon settlement.

The Company was informed by the Trustee of the bondholders and by Rainmaker that Rainmaker and the representatives of the bondholders are having direct discussions in order to reach a potential settlement by and between Rainmaker and the bondholders, to address a scenario in which the sale of Team Internet will not be consummated. The Company is not a party to such discussions.

NOTE 1:- GENERAL (Cont.)

iv. In respect of the Company's convertible bond, as described in Note 5 herein, noncompliance with certain covenants during two consecutive quarters constitutes a default event, which under certain circumstances, as detailed in the bond, entitles the holders to claim immediate repayment of the Bonds. The following includes summary of the bond financial covenants:

Covenant
Minimum Equity (as defined therein) of \$40,000
Net Debt to Adjusted EBITDA Ratio (as defined therein) of not more than 2.5
Adjusted EBITDA (as defined therein) of at least \$10,000

As of 30 June, 2019, the Company was not in compliance for two or more consecutive quarters with its Minimum Equity covenant and with the Adjusted EBITDA covenant. Therefore, under ASC 470, Debt, the convertible bond in the amount of \$ 19,231 (principal of \$ 28,323 as of 30 June 2019) was classified to short term liabilities as of 30 June 2019.

Noncompliance with certain covenants in the bonds triggers an increase of interest. As a result of the Company's Shareholders' Equity being lower than \$50,000, the interest rate on the outstanding balance of the principal of the Bonds was increased by 0.5% as of October 1, 2018. In addition, as a result of the Adjusted EBITDA being lower than \$10,000, the interest rate on the outstanding balance of the principal of the Bonds was increased by additional 0.5% as of 1 January, 2019. Therefore, the updated annual interest rate for the period commencing on the 1 January, 2019 and through 31 December, 2019 will be 6.5%.

v. On 28 December 2017, major shareholders of the Company holding in the aggregate approximately 30% of the Company's voting share capital, provided letters of support addressed to the Company stating that such shareholders agreed to provide sufficient financial support, if necessary, to the Company to ensure that the Company can continue its operations for at least twelve months from 27 December 2017. Under such letters, all eligible shareholders will have the right to participate under the same terms, which will be determined by the Board, subject to receipt of any applicable shareholder approvals (the "Letters of Support").

With respect to such Letters of Support, the Company received two letters, the first letter from legal counsel to the minority shareholder in Team Internet, Rainmaker, claiming, among other things, that the Letters of Support impose a liability upon such major shareholders to inject funds into the Company in order to enable it to pay the consideration for the Third Sale Exit. The second letter from legal counsel to the major shareholders, who provided the Letters of Support, which include, *inter alia*, claims that the obligation under the Letters of Support is intended to cover funding relating to the Company's on-going operations, that is, salaries payments and other on-going expenses etc., but does not cover the consideration for the Third Sale Exit or discharge the Company's liabilities. The bondholders have also raised claims that based on their interpretation, the Letters of Support are intended to cover the payments due to them.

NOTE 1:- GENERAL (Cont.)

On 20 December 2018, the Company received a letter from legal counsel to the shareholders who provided the Letters of Support, confirming that in support of the current discussions among the Company and various stakeholders, including the bondholders, the aforementioned shareholders agree not to claim that the Letters of Support expire with respect to the period up to 10 January 2019. This extension further states that the foregoing extension relates only to the extent of the circumstances under which the major shareholders would have been required to provide support pursuant to the terms of the original Letters of Support until 27 December 2018. The Company received several additional letters from legal counsel to the shareholders who provided the Letters of Support, further extending the Letters of Support as described above up to September 30, 2019.

It should be noted that the Company engaged independent legal experts in order to advise about the appropriate measures and actions it should take in connection with the Letters of Support. In light of the continued negotiations regarding the Sale Offer and the extension of the Letters of Support as described above, the Company is of the opinion that it is not necessary, at this stage, to reach a conclusion regarding the above disputed interpretation of the Letters of Support.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES**a. Unaudited interim financial information**

The accompanying unaudited interim consolidated financial information have been prepared in accordance with accounting principles generally accepted in the United States ("US GAAP") for interim financial information. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States for complete financial information. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The results for the six-month period ended 30 June 2019 are not necessarily indicative of the results that may be expected for the year ended 31 December 2019.

In the preparation of the interim consolidated financial information, except as described in Note 3, it applied the significant accounting policies, on a consistent basis to the annual financial statements of the Company as of 31 December 2018.

The unaudited interim consolidated financial information should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's financial statements ("the Annual Report") for the year ended 31 December 2018.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

b. Use of estimates:

The preparation of the consolidated financial information in conformity with US GAAP requires management to make estimates, judgments and assumptions. The Company's management believes that the estimates, judgments and assumptions it uses are reasonable based upon information available at the time they are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial information, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

On an ongoing basis, the Company's management evaluates estimates, including those related to accounts receivable, fair values of financial instruments, fair values and useful lives of intangible assets and reporting units, fair values of stock-based awards, deferred taxes and income tax uncertainties and contingent liabilities. Such estimates are based on historical experience and on various other assumptions that it believes to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities.

c. Internally developed software:

The Company capitalizes certain internal software development costs, consisting of direct labor associated with creating the internally developed software. Software development projects generally include three stages: the preliminary project stage (all costs expensed as incurred), the application development stage (costs are capitalized) and the post implementation/operation stage (all costs expensed as incurred).

The costs capitalized in the application development stage primarily include the costs of designing the application, coding and testing of the system. Capitalized costs are amortized using the straight-line method over the estimated useful life of the software, generally 3 years, once it is ready for its intended use. The Company believes the straight-line recognition method best approximates the manner in which the expected benefit will be derived. Amortization expense for the related capitalized internally developed software in the six month periods ended 30 June 2019 and 2018 totalled \$ 268 and \$ 1,090, respectively, and is included in cost of revenues in the accompanying consolidated information of operations. Management evaluates the useful lives of these assets on an annual basis and tests for impairment whenever events or changes in circumstances occur that could impact the recoverability of these assets.

Capitalized internally developed software of \$ 849 and \$ 818 are included in property and equipment in the consolidated balance sheets as of 30 June 2019 and 31 December 2018, respectively.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

d. Fair value of financial instruments

The carrying amounts of financial instruments carried at cost, including cash and cash equivalents, short-term deposits, accounts receivable, prepaid expenses and other assets, accounts payable, accrued expenses and other liabilities approximate their fair value due to the short-term maturities of such instruments.

The Company follows the provisions of ASC 820 which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

In determining a fair value, the Company uses various valuation approaches. ASC 820 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing an asset or liability, based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect assumptions that market participants would use in pricing an asset or liability, based on the best information available under given circumstances.

The hierarchy is broken down into three levels, based on the observability of inputs and assumptions, as follows:

- **Level 1** - Observable inputs obtained from independent sources, such as quoted prices for identical assets and liabilities in active markets.
- **Level 2** - Other inputs that are directly or indirectly observable in the market place.
- **Level 3** - Unobservable inputs which are supported by little or no market activity.

The following table present liabilities measured at fair value on a recurring basis as of 30 June 2019 and 31 December 2018:

	30 June 2019			
	Fair value measurements using input type			
	Level 1	Level 2	Level 3	Total
Liabilities:				
Bonds	\$ 19,231	\$ -	\$ -	\$ 19,231
Total financial liabilities	<u>\$ 19,231</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,231</u>
	31 December 2018			
	Fair value measurements using input type			
	Level 1	Level 2	Level 3	Total
Liabilities:				
Bonds	\$ 18,540	\$ -	\$ -	\$ 18,540
Derivative	-	933	-	933
Total financial liabilities	<u>\$ 18,540</u>	<u>\$ 933</u>	<u>\$ -</u>	<u>\$ 19,473</u>

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

e. Goodwill and other intangible assets:

Goodwill reflects the excess of the purchase price of business acquired over the fair value of net identifiable assets acquired. Goodwill and indefinite intangible assets are not amortized but instead are tested for impairment, in accordance with ASC 350, at least annually at December 31 each year, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

The Company determines the fair value of its Domain Monetisation and Mobile reporting units using the income approach which utilizes a discounted cash flow model, as it believes that this approach best approximates the reporting unit's fair value. Judgments and assumptions related to revenue, gross margin, operating income, future short-term and long-term growth rates, weighted average cost of capital, interest, cash flows, and market conditions are inherent in developing the discounted cash flow model. The Company considers historical rates and current market conditions when determining the discounted and growth rates to use in its analyses. If these estimates or their related assumptions change in the future, the Company may be required to record impairment charges for its goodwill.

Due to changes in compliance requirements, a handful of the Company's publishers have been deactivated, which resulted in negative impact on the Company's projected EBIDTA. As a result, the Company recorded goodwill impairment charges of \$15,984 related to its Domain Monetisation reporting unit, using a weighted average cost of capital and a long-term growth rate of 15% and 2%, accordingly. During the year ended 31 December 2018, the Company recorded goodwill impairment charges of \$30,648 related to its Mobile reporting unit, which is included in loss from discontinued operations, and \$5,014 related to its Domain Monetisation reporting unit. The majority of the inputs used in the discounted cash flow model to determine the fair value of the reporting units are unobservable and thus are considered to be Level 3 inputs.

f. Restricted Cash:

In the first quarter of 2019, the Company adopted FASB ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash ("ASU 2016-18"), which enhances and clarifies the guidance on the classification and presentation of restricted cash in the statement of cash flows and requires additional disclosures about restricted cash balances.

NOTE 3:- LEASES

In February 2016, the Financial Accounting Standards Board (the "FASB") issued Topic 842, which requires the recognition of right-of-use ("ROU") assets and lease liabilities for operating leases on the consolidated balance sheet. The Company adopted Topic 842 and its related amendments as of January 1, 2019 using a modified retrospective transition approach by applying the new standard to all leases existing at the date of initial application and not restating comparative periods. The Company elected the package of practical expedients permitted under the transition guidance, which allowed the Company to not reassess whether arrangements contain leases, not reassess lease classification and not reassess initial direct costs.

NOTE 3:- LEASES (Cont.)

Under the new guidance, the Company determined if an arrangement contains a lease and the classification of that lease, if applicable, at inception or upon modification of a contract. The Company elected to not recognize a lease liability or ROU asset for short-term leases (leases with a term of twelve months or less and does not include an option to purchase the underlying asset that the Company is reasonably certain to exercise). Lease liabilities represent its obligation to make lease payments under the lease. Operating lease ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. Some leases include one or more options to renew. The exercise of lease renewal options is typically at the Company's sole discretion; therefore, the majority of renewals to extend the lease terms are not included in our right of use assets and lease liabilities as they are not reasonably certain of exercise. The Company regularly evaluates the renewal options, and, when it is reasonably certain of exercise, it will include the renewal period in its lease term. Lease modifications result in remeasurement of the lease liability.

The right-of-use asset and lease liability are initially measured at the present value of the lease payments, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate based on the information available at the date of adoption in determining the present value of the lease payments. The determination of its incremental borrowing rate requires judgment

The Company has operating leases for office space, that expire through 2025. Below is a summary of operating right-of-use assets and operating lease liabilities as of 30 June, 2019 (Unaudited):

	<u>\$</u>
Operating right-of-use assets	\$1,907
Operating lease liabilities, current	325
Operating lease liabilities long-term	<u>1,542</u>
Total operating lease liabilities	<u><u>\$1,867</u></u>

The short-term lease liabilities is included within accrued expenses and other short term liabilities in the consolidated balance sheet.

NOTE 3:- LEASES (Cont.)

Minimum lease payments for our right of use assets over the remaining lease periods as of 30 June, 2019, are as follows:

	30 June, 2019 (unaudited)
2019	\$160
2020	321
2021	321
2022	321
2023	320
Thereafter	<u>467</u>
Total undiscounted lease payments	1,910
Less: Interest	<u>(43)</u>
Present value of lease liabilities	<u><u>\$1,867</u></u>

The weighted average remaining lease terms and discount rates for all of operating leases were as follows as of 30 June, 2019:

Weighted average remaining lease term (years) 3.3

Weighted average discount rate 1.90%

Total rent expenses for the six months ended 30 June, 2019 and 2018 were \$ 188 and \$ 716, respectively.

NOTE 4:- BANK LOANS AND CREDIT LINE

In relation to the bank loans and credit lines, the Company is required to comply with certain covenants, as defined in the loan and bond agreements and its amendments. As of 30 June 2019, the Company was in full compliance with the financial covenants of its bank loan. In August 2019, the credit line was extended for 3 months until a new credit line agreement will be approved.

NOTE 5:- CONVERTIBLE BOND

In February 2018, the Company completed a public offering in Israel of convertible bonds (the "Bonds"). Through the issuance of the Bond, the Company raised a total gross consideration of ILS 103 million (approximately \$29,930 as of issuance date) issuing a total of 101,000 units of Bond, which bear a coupon of 5.5% per annum, payable semi-annually on June 30 and December 31 of each of the years 2018 to 2021 (inclusive). The interest is paid on a semi-annual basis. Interest prepayment in the amount of ILS 3.3 million (\$ 938) is included in other receivables and prepaid expenses on the balance sheet as of 30 June 2019. The principal of the Bonds, denominated in ILS, is required to be repaid in two equal annual instalments commencing in December 2020. The Bonds are by their terms convertible into ordinary shares of the Company, at the discretion of the holders, up to ten (10) days prior to the final redemption date (i.e. December 21, 2021). The conversion price is subject to adjustment in the event that the Company effects a share split or reverse share split, rights offering or a distribution of bonus shares or a cash dividend. The Company may redeem the Bond upon delisting of the Bond from the TASE, subject to certain conditions. Refer to Note 1b for further information. Refer to Note 1c(iv) for further information on the Bonds and the Bonds covenants, including the potential consequences of noncompliance with such financial covenants.

The Company elected to apply the fair value option in accordance with ASC 825, "Financial Instruments", to the convertible bond and therefore all unrealized gains and losses are recognized in earnings. As of 30 June 2019, the fair value of the convertible bond, based on its quoted price at the TASE was \$ 19,231.

The changes of the convertible bond in the six months ended 30 June 2019 were as follows:

	<u>\$</u>
Balance 1 January 2019	\$ 18,540
Change in fair value	<u>691</u>
Balance as of 30 June, 2019 (Unaudited)	<u><u>\$ 19,231</u></u>

As of 30 June 2019, the aggregate principal annual payments of the bonds are as follows:

	Repayment amount
	<u>\$</u>
2020	\$14,161
2021	<u>14,162</u>
	<u><u>\$28,323</u></u>

NOTE 6:- EQUITY

a. Options issued to employees and directors:

A summary of the activity in options granted to employees and directors is as follows:

	<u>Number of options</u>	<u>Weighted- average exercise price</u>	<u>Weighted- average remaining contractual term (in years)</u>	<u>Aggregate intrinsic value</u>
Outstanding at January 1, 2019	1,473,843	\$ 1.45	3.50	\$ 0
Forfeited	<u>(662,320)</u>	\$ 1.56		
Outstanding at 30 June 2019 (unaudited)	<u>811,523</u>	<u>\$ 1.35</u>	<u>4.06</u>	
Exercisable at 30 June 2019 (Unaudited)	<u>578,964</u>	<u>\$ 1.40</u>	<u>2.46</u>	

As of 30 June 2019, the total compensation cost related to options granted to employees and directors, not yet recognized amounted to \$ 37.

b. Restricted Share Units ("RSU") issued to employees and directors:

	<u>Number of RSU's</u>
Unvested at 1 January 2019	<u>38,500</u>
Granted	-
Vested	-
Forfeited	<u>(3,000)</u>
Unvested at 30 June 2019 (unaudited)	<u>35,500</u>

As of 30 June 2019, the total compensation cost related to RSUs granted to employees, not yet recognized amounted to \$ 9.

c. Treasury shares

As of 30 June 2019 and 31 December 2018, treasury shares amounted to 10,970,111 shares of which 1,211,236 shares are held by Team Internet, and are considered outstanding.

NOTE 7:- TAXES ON INCOME

- a. Loss before taxes on income is comprised as follows:

	Six months ended 30 June		Year ended December 31
	2019	2018	2018
	Unaudited		
Domestic	\$ (3,934)	\$ (1,673)	\$ (1,631)
Foreign	\$ (13,428)	\$ (783)	\$ (1,619)
	\$ (17,362)	\$ (2,456)	\$ (3,250)

- b. Taxes on income (tax benefit) are comprised as follows:

	Six months ended 30 June		Year ended December 31
	2019	2018	2018
	Unaudited		
Current:			
Domestic	\$ 51	\$ 1	\$ (11)
Foreign	1,346	2,500	4,358
	1,397	2,501	4,347

	Six months ended 30 June		Year ended December 31
	2019	2018	2018
	Unaudited		
Deferred:			
Domestic	\$ -	\$ -	\$ 2
Foreign	(2,187)	(449)	(666)
	(2,187)	(449)	(664)
	\$ (790)	\$ 2,052	\$ 3,683

NOTE 8:- REPORTABLE SEGMENTS

a. General

In 2018, the Company's chief operating decision maker ("CODM") started to review and make decisions about resources based on three reporting segments consisting of Team internet, Mobfox and the remaining non-core activities which reflect the companies updated business activity and its focus strategic. Accordingly, for management purposes, the Company was organized into operating segments based on the products and services and had operating segments as follows:

- Mobile Advertising ("Mobfox") – Mobfox is a data-driven, supply-side platform (SSP) and exchange for mobile in-app advertising. Connected to developers and publishers, along with quality demand sources, Mobfox offers comprehensive support for all major mobile ad formats. Mobfox also offers media buying services on its myDSP demand-side platform (DSP). Following the sale in November 2018 this operating segment ceased to exist. For the year ended 31 December 2018 and six-month periods ended 30 June 2019 and 2018 this segment is reported as Discounted Operations in accordance with ASC 205-20.
- Domain Monetization – Team Internet serves the domain monetisation market and includes two brands which work seamlessly together to provide a complete offering. Parking Crew is a domain parking platform which integrates with many third-party applications. Tonic, the second platform, is a traffic marketplace that allows users to monetize traffic and target audiences with a variety of ad types.
- Non-core Activities – Matomy's non-core activities include email marketing under the Whitedelivery brand and video advertising services under the Video from Matomy and Optimatic Media Inc. ("Optimatic") brands. Following the sale of certain activities and the restructuring of the remaining non-core activities, this operating segment ceased to exist.

Following the sale of certain activities and the restructuring of the remaining non-core activities during 2018, the Company operates only one segment the domain monetization.

b. Segments information:

	Six months ended 30 June		Year ended December 31
	2019	2018	2018
	Unaudited		
Revenues:			
Domain Monetisation	\$ 33,701	\$ 42,638	\$ 75,636
Other	-	11,778	13,098
Total revenues	<u>\$ 33,701</u>	<u>\$ 54,416</u>	<u>\$ 88,734</u>

NOTE 8:- REPORTABLE SEGMENTS (Cont.)

b. Segments information:

	Six months ended		Year ended
	30 June		December 31
	2019	2018	2018
	Unaudited		
Operating income :			
Domain Monetisation	3,864	8,464	\$ 14,181
Other	-	(3,223)	(4,089)
Reconciling items ⁽¹⁾	(19,150)	(5,790)	(18,445)
Total loss from continuing operations	\$ (15,286)	\$ (549)	\$ (8,353)

- (1) Reconciling items are primarily related to impairment loss and depreciation and amortization costs for the six months ended 30 June, 2019 and 2018 and for the year ended 31 December 2018, as well as corporate administrative costs and other miscellaneous items that are not allocated to individual segments.

The following includes the information of operations of the domain monetization:

	Six months ended		Year ended
	30 June		December 31
	2019	2018	2018
	Unaudited		
Revenues	\$ 33,701	\$ 42,638	\$ 75,636
Cost of revenues	26,496	33,030	58,089
Gross profit	7,205	9,608	17,547
Operating expenses			
Research and development	289	214	455
Selling and marketing	1,847	2,052	3,792
General and administrative	916	796	1,775
Goodwill Impairment	15,984	-	5,014
Total operating expenses	19,036	3,062	11,036
Operating income (loss)	(11,831)	6,546	6,511
Financial expenses (income), net	137	(109)	(70)
Income (loss) before taxes on income	(11,968)	6,655	6,581
Tax on income	1,323	2,099	3,658
Income (loss) before equity losses of affiliated companies	(13,291)	4,556	2,923
Net income (loss)	(13,291)	4,556	2,923
Net loss attributable to non-controlling interests in subsidiaries	13	44	53
Net income (loss)	\$ (13,278)	4,600	\$ 2,976

NOTE 8:- REPORTABLE SEGMENTS (Cont.)

c. Geographical information:

Revenues by geography are classified based on the location where the consumer completed the action that generated the relevant revenues.

1. Revenues from external customers:

	Six months ended		Year ended
	30 June		December 31
	2019	2018	2018
	Unaudited		
United States	\$ 19,871	\$ 34,630	\$ 55,665
Europe	9,510	13,581	22,709
Asia	1,330	1,938	3,483
Other	2,990	4,267	6,877
	<u>\$ 33,701</u>	<u>\$ 54,416</u>	<u>\$ 88,734</u>

2. Property and equipment, net:

	30 June	31 December
	2019	2018
	Unaudited	
Israel	\$ -	\$ 53
Germany	1,414	1,360
	<u>\$ 1,414</u>	<u>\$ 1,413</u>

- d. In the six months periods ended 30 June 2019 and 2018 and in the year ended 31 December 2018, one customer contributed 90 %, 67 % and 72% of the Company's revenues, while no other customer contributed more than 10%.

NOTE 9:- DISCONTINUED OPERATIONS

As a result of the sale of the Mobfox business, the operating results from the Mobfox mobile-core segment and the related assets and liabilities have been presented as discontinued operations in the consolidated financial information for all periods presented. The results of operations from discontinued operations presented below include certain allocations that management believes fairly reflect the utilization of services provided to the former Mobfox segment. The allocations do not include amounts related to general corporate administrative expenses or interest expense. Therefore, the results of operations from the Mobfox segment do not necessarily reflect what the results of operations would have been had the former Mobfox segment operated as a stand-alone segment.

NOTE 9:- DISCONTINUED OPERATIONS (Cont.)

The following table summarizes the results of discontinued operations for the six months ended 30 June 2019 and 2018 and for the year ended 31 December 2018:

	Six months ended		Year ended
	30 June		December 31
	2019	2018	2018
	Unaudited		
Revenues	\$ -	\$ 18,848	\$ 34,774
Cost of revenues	-	17,264	31,422
Gross profit	-	1,584	3,352
Operating expenses	-	-	-
Research and development	-	2,640	4,774
Selling and marketing	-	1,871	3,076
General and administrative	-	2,169	3,344
Impairment, net of change in fair value of contingent consideration	-	9,403	30,607
Restructuring costs	-	10	942
Loss from sale of activity	-	-	58
<u>Total operating expenses</u>	-	16,093	42,801
Operating loss	-	(14,509)	(39,449)
Tax on income	-	72	338
Loss from discontinued operations	-	(14,581)	\$ (39,787)

The following table summarizes the assets and liabilities of discontinued operations as of 30 June 2019 and December 2018:

	30 June	31 December
	2019	2018
	Unaudited	
ASSETS		
CURRENT ASSETS:		
Trade receivables, net	\$ 287	\$ 4,634
<u>Total current assets of discontinued operation</u>	287	4,634
<u>Total assets</u>	\$ 287	\$ 4,634

NOTE 9:- DISCONTINUED OPERATIONS (Cont.)

	<u>30 June 2019</u>	<u>31 December 2018</u>
	<u>Unaudited</u>	
LIABILITIES		
CURRENT LIABILITIES:		
Trade payables	\$ 525	\$ 3,928
<u>Total</u> current liabilities of discontinued operation	<u>525</u>	<u>3,928</u>
<u>Total</u> liabilities	<u>\$ 525</u>	<u>\$ 3,928</u>

NOTE 10:- FINANCIAL EXPENSES, NET

	<u>Six months ended 30 June</u>		<u>Year ended December 31 2018</u>
	<u>2019</u>	<u>2018</u>	
	<u>Unaudited</u>		
Financial income:			
Interest income	\$ 100	\$ 66	\$ 45
Change in fair value of convertible Bonds	-	3,532	11,390
Hedging transactions	174	-	-
	<u>274</u>	<u>3,598</u>	<u>11,435</u>
Financial expenses:			
Bank fees	\$ (92)	\$ (226)	\$ (387)
Interest expense	(952)	(1,060)	(2,042)
Foreign currency remeasurement.net	(22)	(543)	(718)
Hedging transactions	-	(511)	(899)
Change in fair value of convertible Bonds	(691)	-	-
Change in fair value of liability to non-controlling interest	(587)	(1,566)	(684)
Other	(6)	(11)	(14)
	<u>(2,350)</u>	<u>(3,917)</u>	<u>(4,744)</u>
	<u>\$ (2,076)</u>	<u>\$ (319)</u>	<u>\$ 6,691</u>

NOTE 11:- RELATED PARTIES

The Company has activity with related parties as part of its ordinary business. The majority of the related parties' transactions include domain monetization activity with the non-controlling interest of Team Internet.

Cost of revenues to related parties amounted to \$ 1,495, \$ 3,151 and \$ 5,009 for the six months ended 30 June 2019 and 2018 and for the year ended 31 December 2018 respectively.

Trade payables to related parties amounted to \$ 272 and \$ 255 for 30 June 2019 and for 31 December 2018, respectively.
