

Wix.com Ltd.
Form 20-F
April 09, 2019

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, 2018

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
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)

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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

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, 2018, the registrant had outstanding 49,269,626 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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes No

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

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

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

Indicate by check mark which basis of 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

(ii)

WIX.COM LTD.

FORM 20-F
ANNUAL REPORT FOR THE FISCAL YEAR ENDED DECEMBER 31, 2018

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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 we will be able to attract and retain registered users;
- our expectation that the revenues we generate from each premium subscription will increase in the future;
- our assumption that historical user behavior can be extrapolated to predict future user behavior;
- our prediction of the future collections generated by our user cohorts;
- our expectations with respect to the integration and performance of acquisitions;
- our expectation to enter into new markets and attract new customer segments;

- our expectation to maintain and enhance our brand and reputation;
- our expectation regarding the impact of fluctuations in foreign currency exchange rates on our business;
- our expectations to make share repurchases pursuant to our share repurchase plan;
- our expectation that we will effectively manage the growth of our infrastructure;
- our expectation that we will effectively execute our initiatives to scale and improve our user support function;
- the future success of our sales efforts;
- our expectation that new products and developments will receive customer acceptance and satisfaction;
- changes we expect to happen to technologies used in our solutions;
- changes we expect to happen in global, national, regional or local economic, business, competitive, market, and regulatory landscape;
- 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.

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, 2018 and the consolidated balance sheet data as of December 31, 2017 and 2018 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, 2014 and 2015 and the consolidated balance sheet data as of December 31, 2014, 2015 and 2016 are derived from our audited consolidated financial statements that are not included in this annual report.

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	Year Ended December 31,				
	2014	2015	2016	2017	2018
	(in USD thousands except share and per share data)				
Consolidated Statements of Operations:					
Revenues	141,841	203,518	290,103	425,636	603,704
Cost of revenues ⁽¹⁾	26,108	34,970	45,287	69,391	126,947
Gross profit	115,733	168,548	244,816	356,245	476,757
Operating expenses:					
Research and development ⁽¹⁾	57,832	77,647	105,368	153,635	198,912
Selling and marketing ⁽¹⁾	97,742	120,010	156,512	204,435	249,178
General and administrative ⁽¹⁾	15,803	19,526	26,968	48,186	59,297
Total operating expenses	171,377	217,183	288,848	406,256	507,387
Operating loss	(55,644)	(48,635)	(44,032)	(50,011)	(30,630)
Financial income (expenses), net	2,144	77	247	(5,015)	(2,794)
Other income (expenses)	(14)	(11)	(4)	76	(489)
Loss before taxes on income	(53,514)	(48,569)	(43,789)	(54,950)	(33,913)
Taxes on income	3,052	2,765	3,107	1,323	3,207
Net loss	(56,566)	(51,334)	(46,896)	(56,273)	(37,120)
Basic and diluted net loss per ordinary share ⁽²⁾	(1.49)	(1.30)	(1.12)	(1.24)	(0.77)
Weighted average number of ordinary shares used in computing basic and diluted net loss per ordinary share ⁽²⁾	37,847,093	39,408,928	42,032,818	45,552,199	48,017,188

	As of December 31,				
	2014	2015	2016	2017	2018
	(in USD thousands)				
Consolidated Balance Sheet Data:					
Cash and cash equivalents and short-term deposits	86,011	109,999	148,562	200,612	680,676
Restricted deposits	5,909	3,851	931	949	1,149
Marketable securities	-	-	22,742	32,730	70,217
Total assets	118,422	149,433	214,684	330,013	844,750
Deferred revenues	66,598	104,767	156,733	216,811	239,720
Total shareholders' equity (deficiency)	18,650	(3,805)	(2,469)	11,320	152,265

	Year Ended December 31,				
	2014	2015	2016	2017	2018
	(in USD thousands except registered users and premium subscription data)				
Supplemental Financial and Operating Data:					
Collections ⁽³⁾	171,255	241,687	342,069	483,989	658,385
Net cash provided by (used in) operating activities	(803)	20,876	40,573	83,052	115,709
Free cash flow ⁽⁴⁾	(6,422)	14,534	36,158	70,683	101,633
Number of registered users at period end ⁽⁵⁾	57,945,346	76,965,482	97,358,803	119,263,915	142,438,663
Number of premium subscriptions at period end ⁽⁶⁾	1,232,827	1,767,423	2,465,160	3,223,036	3,983,415

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

	Year Ended December 31,				
	2014	2015	2016	2017	2018
	(in USD thousands)				
Cost of revenues	1,004	1,353	1,798	2,930	4,418
Research and development	6,594	9,234	14,543	26,227	39,417
Selling and marketing	2,533	3,077	4,553	6,585	9,770
General and administrative	3,806	5,069	7,154	11,958	18,725
Total share-based compensation expense	13,937	18,733	28,048	47,700	72,330

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 2u and 14 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,				
	2014	2015	2016	2017	2018
	(in USD thousands)				
Reconciliation of Revenues to Collections:					
Revenues	141,841	203,518	290,103	425,636	603,704
Change in long-term and short-term deferred revenues	29,414	38,169	51,966	58,353	54,681
Collections	171,255	241,687	342,069	483,989	658,385

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 its usefulness as a comparative measure. You should consider collections along with other financial performance measures, including revenues, net cash provided by (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 net cash provided by (used in) operating activities minus capital (4) expenditures. The following table reconciles net cash provided by (used in) operating activities, the most directly comparable U.S. GAAP measure, to free cash flow:

	Year Ended December 31,				
	2014	2015	2016	2017	2018
	(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	(803)	20,876	40,573	83,052	115,709
Capital expenditures ^(a)	(5,619)	(6,342)	(4,415)	(12,369)	(14,076)
Free cash flow	(6,422)	14,534	36,158	70,683	101,633

(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 its usefulness as a comparative measure. You should consider free cash flow along with other financial performance measures, including revenues, net cash provided by (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, who are registered with Wix.com with a unique email address at the end of the period, including those who purchase premium subscriptions. (5) Following registration, the length of time that registered users take to design and publish a website varies significantly from hours to years, and many registered users never publish a website. Our use of the term “registered user” herein is not intended to necessarily indicate a certain level of engagement or how close a registered user is to potentially publishing their website. See “—D. Risk Factors—Risks Related Our Business and Our Industry”

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

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

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 or if we are unable to retain and increase revenue from our premium users as we expect.

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, and we have managed to retain and increase revenue from our premium subscribers through additional complementary solutions we offer. Approximately 63% of our new premium subscriptions in the last quarter of 2018 were 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 retain and attract new registered users and premium subscriptions and our ability to retain and increase revenue from our premium users, 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;
- our ability to successfully attract our premium users to purchase additional complementary features and products to enhance their subscription;
- reduction in our users’ spending levels;
- the pricing of our solutions and services compared to our competitors;
- the variety of our subscription packages, our vertical applications, and their respective price ranges;
- our ability to attract and retain expert design agencies to create websites for their customers on our platform;
- 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;

competitive factors affecting the software as a service business, including the competitive landscape and the strategies that may be implemented by our competitors;

unexpected increases in the cost of acquiring new registered users, beyond the year-over-year increase that we experience due to competition in certain geographies; and

our ability to expand into new geographic markets, including our ability to make our product, support and communication channels available in additional languages, and to attract new customer segments.

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

We acquire some of our registered users through paid marketing channels, such as cost-per-click advertisements on search engines and social networking sites, targeted and generic banner advertisements on other sites, and social network influencers who promote our platform. 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 and at increasing our revenue for each premium subscription acquired. In the years ended December 31, 2016, 2017 and 2018, advertising expenses were \$113.2 million, \$141.3 million and \$165.3 million, respectively, representing 39%, 33% and 27% of our revenue, respectively, and representing 33%, 29% and 25% of our collections, respectively. We conduct search engine optimization and A/B testing, a marketing approach that aims to identify which changes to our website will increase or maximize user interest and user acquisition and up-sell. 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 and additional features and solutions to enhance such 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. Even if we understand historical patterns, our predictions could be inaccurate. For example, events outside our control, such as announcements by our competitors or other third-parties of significant business developments, have in the past adversely affected the returns we had anticipated on our marketing expenses in the short-term. An unexpected increase in the marginal acquisition cost of new registered users may also have an adverse effect on our ability to grow the number of our registered users and premium subscriptions. In addition, we may invest a significant portion of our marketing expenses on more traditional advertising and promotion of our brand, including through sponsorships with City Football Group Limited, the New York Yankees and others, and our nationally televised Super Bowl campaigns, the effectiveness of which is more difficult to track than online marketing. If any of our marketing campaigns prove less successful than anticipated in attracting registered users and premium subscriptions or up-selling additional features and solutions to our premium subscribers, we may not achieve our return-on-investment targets, and our rates of registered user and premium subscription acquisitions and revenue per subscription, may fail to meet market expectations, which could have a material adverse effect on our share price.

A decrease in renewal rates of our existing premium subscriptions could adversely impact our revenues and collections, 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 revenues and our collections. As of December 31, 2018, yearly and multi-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. Yearly or multi-year subscriptions have higher renewal rates than monthly subscriptions, since there are not as many opportunities in a one-year or multi-year period to fail to renew such subscription, whether deliberately or through failure to update payment information upon expiration. If the number of premium subscriptions or renewal rates fail to meet our expectations, our profitability and future prospects may be adversely impacted. In addition, premium subscriptions currently renew automatically at the end of each subscription period unless registered users cancel their subscription in advance. Any limitation or restriction imposed on this ability to bill our registered users on a recurring basis or the manner in which the rebilling is performed, whether due to new regulations or otherwise, may significantly lower the renewal rate of our subscriptions.

If the security of the data we store in our systems, including personal information or business data of our registered users and their users 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 data including our data, data of our prospective and registered users, as well as data relating to the visitors, customers and users of our users, which we refer to as our users of users. Such data that we store may include email address, geo-location, usage data, business data, passwords and also billing information, such as encrypted credit card numbers, full names, billing address, phone numbers and additional information they may view as confidential. Third party applications available on our platform may also collect such data and share it with us. We do not regularly monitor or review the content that our users, and their users, upload and store, or information we receive from third party applications and, therefore, we do not control the substance of the content on our servers, which may include personal information. Risks of external or internal unauthorized access or leaks exist.

Although we have implemented data security standards, operating rules and certification requirements, including in accordance with PCI Data Security Standards pursuant to which we have maintained PCI compliance level 1 certification since February 2013, we cannot be sure that the steps that we have taken to protect the security, integrity and confidentiality of the information we, or our users, collect, store, or transmit, will succeed in preventing inadvertent or unauthorized use or disclosure. Our payments system, for example, interfaces with a number of different gateway providers that link to a number of different payment card processors based on jurisdiction and other factors, and depend on the efficacy of secure transmission protocols and related technologies. There can be no assurance that data security standards we have implemented, including for the collection and transmission of credit card and other payment information, or those of our third-party service providers, will adequately comply with the security standards of any future jurisdiction in which we seek to market our solution. Furthermore, 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, whether because of third-party action, employee error, malfeasance or otherwise, or if design flaws in our software are exposed, exploited or abused in any way, including through our Wix Code solution, and, as a result, an unauthorized party accesses any of our registered users' data or the data of their users, or otherwise gains 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 share price. Even if such a data breach affects a competitor and does not arise out of our actions or inactions, the resulting concern to use our platform could negatively affect our business.

In addition, many jurisdictions have enacted laws requiring companies to notify individuals (and regulators) of data security breaches involving certain types of personal data, and, in addition, 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 or premium users. In addition, we could be required to devote significant resources to investigate and address a security breach. Following the introduction of Wix Payments and the increased storage of personal and financial information of our users and their users, a violation of data privacy or security laws, many of which focus on personal financial and payment, 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 data security measures fail to protect the encrypted credit card details, passwords or personal identifiable information adequately, we could be liable to both our registered users and their 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.

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. To attract 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 and maintain an active online presence. We also engage influencers in social networking sites, and attract users through free and paid banner advertisements on other websites, through small Wix advertisements on our registered users' websites that do not have a premium subscription, by targeting design agencies that provide website building services to large client bases using our solutions, by cultivating an experts community to build websites for our users and purchase premium subscriptions and additional solutions for them, through our affiliates program and through more traditional advertising such as sponsorships and television commercials. Our ability to attract additional registered users depends in part on increasing our brand recognition. In addition, our solutions and services are also marketed through free traffic sources, including customer referrals, word-of-mouth and direct searches for our "Wix" name, or web presence solutions, in search engines.

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

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

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

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

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

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

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

Furthermore, many of our employees may expect to receive significant proceeds from sales of our ordinary shares in the public markets after their equity compensation has fully vested. A drop in our 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 employees, and we may never realize returns on these investments. If we are not able to effectively hire and retain employees, our ability to achieve our strategic objectives will be adversely impacted, and our business will be harmed.

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

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

We are subject to the data privacy and data protection laws and regulations adopted in Israel, Europe, the U.S. and other jurisdictions. Where the local data protection and privacy laws of a jurisdiction apply, we may be required to register our operations in that jurisdiction or make changes to our business so that registered users' data or the data of their users that we store, is only collected, processed and/or stored 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 their users. We strive to comply with all applicable laws, regulations, policies and legal obligations, as well as with certain industry standards relating to privacy, data protection, and data security. We are also subject to data 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 data privacy and data security issues worldwide is currently in flux and is likely to remain so for the foreseeable future. Such regulatory framework is often inconsistent and may be subject to amendment or re-interpretation, which may cause us to incur significant costs and expend significant effort to ensure compliance. Given that requirements may be inconsistent and evolving, the manner in which we choose to implement these requirements may fail to meet the expectations of our users, and their users, or other stakeholders, which could thereby reduce the demand for our services. Furthermore, our users or service providers may respond to this regulatory framework by requesting that we undertake certain privacy or data related contractual commitments that we are unable or unwilling to make. This could lead to the loss of current or prospective users or other business relationships. Many of these laws require us to maintain an online privacy policy and terms of service that disclose our practices regarding the collection, processing, and disclosure of personal information. If these disclosures contain any information that a court or regulator finds to be inaccurate, we could also be exposed to legal or regulatory liability. Any such proceedings or violations could force us to spend money in defense or settlement of these proceedings, result in the imposition of monetary liability or demanding injunctive relief, divert management's time and attention, increase our costs of doing business, and materially adversely affect our reputation.

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 (Regulation 2016/679), or GDPR, in April 2016, which replaced the European Data Protection Directive (Directive 95/46/EC) and includes more stringent obligations for online businesses. The approved regulation became effective on May 25, 2018 and replaced, to a large extent, the data protection laws of each European Union member state. The GDPR results in more stringent requirements for data processors and data controllers. Such requirements include more fulsome disclosures about the processing of personal information, enhanced data retention limits and deletion requirements, mandatory 72-hour notification by data controllers to regulators in the case of a data breach and elevated standards regarding valid consent in some specific cases of data processing. The GDPR 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. In addition, national laws introduced under the European e-Privacy Directive (Directive 2002/58/EC as amended by Directive 2009/136/EC) require companies, among other requirements, to obtain consent from users to store or access information located on a user's computer or mobile device, after providing clear and comprehensive information about the access and storage of such user's information, and mainly regulate the use of cookies and similar technologies. The more stringent requirements, including on privacy user notifications and data handling require us to adapt our business and incur additional costs. Due to the accessibility of our services worldwide, certain foreign jurisdictions may claim that we are required to comply with their privacy or data protection laws even in jurisdictions where we have no local entity, employees or infrastructure. Some of these laws include strict localization provisions that require certain data to be stored within a particular region or jurisdiction. We rely on a globally distributed infrastructure in order to be able to provide our services efficiently, and consequently may not be able to meet the expectations of users who are located in or otherwise subject to such localization requirements, which may reduce the demand for our services. For example, 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. Furthermore, new privacy regulations implemented in Turkey, regulate among others, the cross-border transfer of personal data, and apply different requirements that may impact the way we process Turkish users' data. We continue to monitor the implementation of these and other legislative changes, including the California Consumer Privacy Act, or CCPA, slated to come into effect in 2020. Currently, we do not anticipate major changes between the CCPA and the GDPR.

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

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

We are exposed to risks, including security risks, associated with payment processing, particularly in relation to payment transactions processed through Wix Payments, which may subject us to regulatory requirements, contractual obligations, and other risks that could be costly and difficult to comply with or that could harm our business.

We accept payments from our users primarily through credit and debit card transactions and alternative payment methods.

In addition, we facilitate payment collection by our users from their users through Wix Payments, an integrated payment processing solution that allows our users to accept payments from their users, on major credit and debit cards, and through other payment processing solutions that we offer.

We are subject to a number of risks related to our ability to receive payments from our users, and our facilitation of payment processing of our users from their users, 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 subscribers' credit cards on a timely basis or at all, or our users are unable to collect payments from their users, we could lose revenues or cause our users to lose revenues which could harm our business and reputation;
- if we are unable to maintain our chargeback rate at acceptable levels, our credit card fees for chargeback transactions, or our fees for other credit and debit card transactions or issuers, may increase, issuers may terminate their relationship with us, or we may face fines from the issuers;
- increased costs and diversion of management time and effort and other resources to deal with user onboarding, fraudulent transactions or chargeback disputes;
- potential fraudulent or otherwise illegal activity by our users, their users, developers, employees or third parties which could lead to increased liability;
- our reliance on third parties such as gateways, payment service providers and acquiring banks, which may face down time and thus affect our cash flow;
- restrictions on our ability to collect payments from our users, such as under the second Payment Services Directive, or PSD2, which requires strong customer authentication for certain transactions that could impose operational complexity which our users may want to avoid;
- restrictions on funds or required reserves related to payments; and
- additional disclosure requirements, including new reporting regulations and new credit card associated rules.

Depending on how Wix Payments and our other payment solutions evolve, we may currently, or in future, be subject to laws and regulations, either in existing or new jurisdictions, relating to our payment facilitation services. In some jurisdictions, the application or interpretation of these laws and regulations is not clear. Our efforts to comply with these laws and regulations could be costly and result in diversion of management time and effort and may still not guarantee compliance. In the event that we are found to be in violation of any such legal or regulatory requirements, we may be subject to monetary fines or other penalties such as a cease and desist order, or we may be required to make changes to our platform, any of which could have an adverse effect on our business, financial condition and results of operations.

The payment card networks, such as Visa and MasterCard, have also adopted rules and regulations that apply to all merchants who process and accept credit cards for payment of goods and services. We are obligated to comply with these rules and regulations as part of the contracts we enter into with payment processors and acquiring banks. The rules and regulations adopted by the payment card networks include the Payment Card Industry Data Security Standards, or PCI DSS. Under the PCI DSS, we are required to adopt and implement internal controls over the use, storage and security of payment card data to help prevent fraud. If we fail to comply with the rules and regulations adopted by the payment card networks, including the PCI DSS, we would be in breach of our contractual obligations to payment processors and merchant banks, which may include indemnification clauses. Such failure to comply may subject us and/or our users to fines, penalties, damages, higher transaction fees, and civil liability, and could eventually prevent us or our users 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. Moreover, any such illegal or improper payments could harm our reputation and may result in a loss of service for our registered users, which would adversely affect our business, operating results and financial condition.

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

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

Exchange rate fluctuations may negatively affect our results of operations.

Our results of operations and cash flows are affected by fluctuations due to changes in foreign currency exchange rates. In 2018, 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 2018, approximately 67% of our cost of revenues and operating expenses were denominated in U.S. dollars and approximately 29% in New Israeli Shekels, or NIS. Our NIS-denominated expenses consist primarily of personnel and overhead costs. Since a significant portion of our expenses are denominated in NIS, the appreciation of the NIS relative to the U.S. dollar might adversely impact our net loss or net income (if any). We estimate that a 10% appreciation in the value of the NIS against the U.S. dollar would have increased our net loss by approximately \$18 million in 2018. We estimate that a 10% devaluation of certain foreign currencies (including Euros, British Pound, Brazilian Real, Japanese Yen and Russian Ruble) against the U.S. dollar would have increased our net loss by approximately \$18 million in 2018. 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 expenses and revenues, as appropriate and as reasonably available to us. We cannot provide any assurances that our hedging activities will be successful in protecting us from adverse impacts from currency exchange rate fluctuations. See “Item 11. Quantitative and Qualitative Disclosures about Market Risk.”

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

We have experienced rapid growth in our business and operations, which places substantial demands on our operational infrastructure. The scalability and flexibility of our cloud-based infrastructure depends on the functionality of our third-party servers and their ability to handle increased traffic and demand for bandwidth. The significant growth in the number of registered users and transactions, and new developments and functionalities offered on our platform, has increased the amount of both our stored marketing and research data and the data of our registered users and their 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 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 not only on web development but also on 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, obtain premium subscriptions at the same rate or maintain or increase our revenues from such premium subscriptions. It could also cause us to have higher acquisition costs or force us to lower our prices or take other steps that may materially adversely impact our results of operations.

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

As of December 31, 2018, we had 2,487 employees and contractors, which represents an approximately 22% net growth in headcount since December 31, 2017. We currently have offices in Tel Aviv and Beer Sheba in Israel; San Francisco, Miami, New York and Los Angeles in the U.S.; Vancouver, Canada; Kiev and Dnipro in Ukraine; Vilnius, Lithuania; Dublin, Ireland; Berlin, Germany and Santana de Parnaiba, Brazil. We intend to further expand our overall business, including our headcount, and we may face challenges finding suitable office spaces which can accommodate our growth whilst maintaining our corporate culture, with no assurance that our revenues will continue to grow accordingly. As we grow, we will be required to continue to improve our operational and financial controls and reporting procedures and we may not be able to do so effectively. In addition, as we have grown, we have significantly expanded our lease commitments and we plan to further expand such commitments. Our growth has placed, and will likely continue to place, a significant strain on our managerial, administrative, operational, financial and other resources.

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

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

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

- the liability of online service providers for actions by customers, including fraud, illegal content, spam, phishing, libel and defamation, infringement of third-party intellectual property and other abusive conduct;
- other claims based on the nature and content of Internet materials;
- user privacy and security issues;
- consumer protection;
- characteristics and quality of services;
- cross-border e-commerce; and
- ease of access by our users to our platform.

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.

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.

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, threats or incitement to violence, sale or purchase of illegal goods, exploitation of minors and others, terrorist activities, invasion of privacy and other torts, copyright and trademark infringement such as the recent legislative proposals of the European Union which may impose liability for copyright infringement on online platforms, and other theories based on the nature and content of the materials searched, the ads posted, or the content provided by users.

Certain actions of registered users that are deemed to be hostile, offensive or inappropriate to other users or to the public, or registered users acting under false or inauthentic identities or using our product to conduct illegal activities could negatively affect our reputation and brand and impose liability on us. 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 liability on our part or 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.

Furthermore, in the framework of Wix Payments we act as a payment facilitator for our users, pursuant to which we are required to monitor our users’ activity to ensure their compliance with certain standards applied by our payment networks. We may fail to appropriately monitor our users’ activity and be subject to liability.

At present, we do not require that our registered users post on their websites, or require their users 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 users’ 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 their users 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.

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.

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

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

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

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

Our servers, data centers and other facilities 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 or facilities 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 data 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, result in loss or corruption of data we store, subject us to legal liability and regulatory inquiry, harm our reputation and materially adversely affect our business and results of operations.

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

In addition to revenue generated from our premium subscription packages, we generate revenue from additional products and services that are offered to all of our registered users to enhance their digital presence, such as revenue from sale of Ascend by Wix, Wix Answers, Wix Logo Maker, third-party domain registrations and from revenue sharing agreements we have for sale of payments services through Wix Payments, email services and applications sold through our App Market or elsewhere on our platform. 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. Material changes in our agreements with certain providers may significantly affect our ability to generate revenues from sources associated with such providers. In addition, our efforts to generate sales for these items, including via email marketing, may negatively impact our registered users' perception of us. If we do not succeed in selling these items, our future prospects may be adversely affected.

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

Consumers are increasingly accessing the Internet through devices other than personal computers, including mobile phones, smartphones and tablets. This trend has increased dramatically in the past few years and is projected to continue to increase. Acknowledging this trend, we launched our first free mobile offering in 2011, offering our registered users the ability to quickly and easily deploy an HTML5 mobile-optimized website and followed with a further enhanced mobile product in October 2013. In the fourth quarter of 2016, we launched the Wix App, a mobile application available on iOS and Android that allows our users to create and manage content on their websites from a mobile device. In the second quarter of 2018, we launched Wix on Mobile, which allows users to create a site using ADI technology, customize its look and publish it, all 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 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, 2018, we had an accumulated deficit of \$319 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 or choose to incur expenses that we believe are necessary or desirable (such as to invest in businesses, research and development or technologies that we believe will be important for our business), we may be unable to achieve profitability at the time expected by investors, or at all. Even if we achieve profitability, we may be unable to achieve or sustain profitable operations.

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

We rely on search engines and social networking sites to attract new users, and many of our registered users located our website and solutions by clicking through on search results displayed by search engines such as Google and Yahoo!, and advertisements on social networking and other media sites such as Facebook and YouTube. Search engines typically provide two types of search results, natural (i.e., non-paid) and purchased listings. Search page ranking level based on natural search results are determined and organized solely by automated criteria set by the search engine and a ranking level cannot be purchased. Advertisers can also pay search engines to place listings more prominently in search results and websites in order to attract users to advertisers' websites. To some extent, we rely on natural searches in order to attract free traffic to our website. We seek to increase the likelihood that our website is displayed prominently when a potential user searches for a way to build a website. Nevertheless, we cannot be sure that our efforts to optimize search engine results will succeed. Search engines revise their algorithms from time to time in an attempt to optimize their search result listings. In addition, some of the social media data provided by these search engines or social networking sites, are provided to us pursuant to third-party data sharing policies and terms of use or under data sharing agreements by third-party providers. If search engines or social networking sites on which we rely for algorithmic listings or for data collection, modify their algorithms, our websites may appear less prominently or not at all in search results, which could result in fewer users clicking through to our website, and our ability to collect data may be impaired. Furthermore, competitors may bid on our name from search services in an attempt to capture potential traffic. Preventing such actions and recapturing potential traffic could increase our expenses. Further, search engines or social networking sites may change their policies from time to time regarding pay-per-click or other means of advertising or could also interpret our data collection policies or practices as being inconsistent with their policies. If any change to these policies delays or prevents us from advertising through these channels, this could result in fewer users clicking through to our website and could harm our ability to collect valuable data.

Our business is susceptible to risks associated with international sales and the use of our platform in various countries.

We currently have users in approximately 190 countries and we expect to continue to increase the volume of our operations worldwide in the future. However, our operations in various countries subject us to risks which may include difficulties related to contract enforcement, including our terms of use, compliance with foreign laws, monitoring changes and addressing conflicting laws, lower levels of internet use, managing personnel and technology from afar, tax consequences, personnel culture differences and varying economic and political climates, currency exchange rates, different competition sources, different customer spending levels, levels of protection for intellectual property rights and lower levels of credit card use.

These factors, or other factors, may cause our international costs of doing business to exceed our expectations and may also require significant management attention and financial resources. Any negative impact from our international business efforts could adversely affect our business, results of operations and financial condition.

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

From time to time, we evaluate potential strategic acquisition or investment opportunities. Any transactions that we enter into could be material to our financial condition and results of operations. As described in Item 4.A. under the header “Information on the Company - History and Development of the Company – Our History,” in 2017, we acquired U.S. - based DeviantArt, Inc., or DeviantArt. 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, 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 or any other complementary businesses or technologies we acquire in the future. Acquisitions and investments we evaluate from time to time may carry with them a number of risks, including the following:

- diversion of management time and focus from operating our business;
- an inability to achieve synergies as planned;

- potential incompatibility of corporate cultures;
- implementation or remediation of controls, procedures and policies of the acquired company;
- coordination of product, engineering and selling and marketing functions;
- retention of employees from the acquired company;

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

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

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

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

- the use of resources that are needed in other parts of our business;
- the 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 acquisition of DeviantArt 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.

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 2011, we established a Brazilian subsidiary to conduct local payment collection activities in Brazil in compliance with Brazilian currency controls. In 2013, we incorporated a subsidiary in Luxembourg to facilitate local payments in Europe. 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. In 2019, we established a subsidiary in Australia to facilitate local payment in compliance with Australian 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. For example, in December 2018, the Lebanese government blocked access to our platform in Lebanon. The growth of our business may be materially adversely affected if we are unable to expand our registered user base in emerging markets.

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

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

Various private entities also attempt to regulate commercial solicitation via email. These entities often advocate standards of conduct or practice that significantly exceed current legal requirements and classify certain email solicitations that comply with current legal requirements as SPAM, which could lead the sender to be “blacklisted” by such private entities. If we are blacklisted by any such private entity, we may not be able to reach out to our users, which could materially harm our business and brand.

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

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

As a result of our operations as a domain name registrar we are required to comply with industry regulations and could face liability in disputes over registration and transfer of domain names.

In July 2018, we became accredited by ICANN as a domain name registrar. ICANN oversees a number of Internet related tasks, including managing the Domain Name System (DNS) the allocation of IP addresses, the accreditation of domain name registrars and registries and the definition and coordination of policy development for all of these functions.

Our ability to offer domain name registration is subject to our ongoing relationship with, and continued accreditation by, ICANN. Additionally, we continue to face the risks that:

the terms of the Registrar Accreditation Agreement (the “RAA”) under which we are accredited as a registrar, could change in ways that are disadvantageous to us or under certain circumstances could be terminated by ICANN, thereby preventing us from operating our registrar service, or ICANN could adopt unilateral changes to the RAA that are unfavorable to us, that are inconsistent with our current or future plans, or that affect our competitive position;

international regulatory or governing bodies, such as the International Telecommunications Union, a specialized agency of the United Nations, or the E.U., may gain increased influence over the management and regulation of the domain name registration system, leading to increased regulation and oversight; and

ICANN or any third-party registries may implement policy changes impacting our ability to operate as a domain name registrar.

Additionally, as a domain name registrar, we may become aware of disputes over ownership or control of user accounts, websites or domain names, and we could face potential liability for our role in the wrongful transfer of control or ownership of accounts, websites or domain names. We could also face potential liability for our failure to renew a user's domain. The safeguards and procedures we have adopted may not be successful in protecting us against liability from such claims in the future.

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

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

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.

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.

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

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

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

We recognize revenues over the term of our contracts. As of the end of 2018, 83% of our premium subscriptions were yearly or multi-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, Microsoft Edge, Microsoft 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 users of users to access our registered users' sites, may slow the growth of our user base, and materially adversely impact our business and prospects. 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. export control and trade and economic sanctions laws and regulations, including the Export Administration Regulations (“EAR”) administered by the U.S. Department of Commerce’s Bureau of Industry and Security (“BIS”), and the various sanctions programs administered by the U.S. Department of the Treasury’s Office of Foreign Assets Control (“OFAC”) (collectively, “U.S. Trade Controls”). U.S. Trade Controls may prohibit or restrict our ability to, directly or indirectly, conduct activities or dealings in countries or territories that are the target of comprehensive U.S. sanctions (collectively, “U.S. Sanctioned Countries”) and with persons that are the target of U.S. Trade Controls-related prohibitions and restrictions.

In the course of a routine internal review in early 2013, we identified a number of accounts associated with users located in U.S. Sanctioned Countries. Specifically, we identified 16 premium subscriptions, out of a total of approximately 583,000 premium subscriptions, with geographic internet protocols (“GEOIP”) addresses in Cuba, Iran, North Korea, Sudan or Syria, which are and/or were at the time 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 response to these matters, we undertook a number of remedial measures, including terminating the user accounts and the premium subscriptions at issue, and blocking the ability of existing and new registered users—with or without a premium subscription—that have a GEOIP address in, or a top-level domain of, a U.S. Sanctioned Country, to access our cloud-based software or utilizing our hosting services. We have also instituted screening practices and updated our systems to prevent users from U.S. Sanctioned Countries from entering billing information with an address in that location.

In May 2013, we made voluntary self-disclosures to OFAC and BIS, which are still pending. 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 whether the regulators will impose penalties, which may include monetary fines resulting in financial and reputational harm to the Company.

Our subsidiary DeviantArt also filed a voluntary self-disclosure with OFAC in July 2017. Prior to our acquisition of DeviantArt in February 2017, DeviantArt initiated an internal review, with the support of outside counsel, of its compliance with applicable OFAC regulations for the prior six years. This review identified users confirmed through GEOIP addresses and/or other address information, to be located in U.S. Sanctioned Countries. DeviantArt voluntarily submitted a disclosure, which noted that certain of the activities at issue may not have been covered by the OFAC regulations pursuant to a regulatory exemption for information and informational materials, or, alternatively, might have been permissible pursuant to certain general licenses.

DeviantArt undertook a number of remedial measures to prevent recurrence, including disabling commercial and/or transactional functionalities of the DeviantArt platform within the user accounts that have a GEOIP address in a U.S. Sanctioned Country. DeviantArt also instituted daily screening practices and updated its systems to prevent users from U.S. Sanctioned Countries from entering billing information with an address in that location. On March 6, 2018, OFAC closed the matter without penalty through a Cautionary Letter.

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.

We have ceased providing services to users with a GEOIP address in, or a top level domain of, a U.S. Sanctioned Country. Lebanon is the only Israeli Sanctioned Country that is not also a U.S. Sanctioned Country. The number of registered users and premium subscribers that we had in Lebanon was never material to our business, and since December 2018, the Lebanese government blocked access to our platform in Lebanon, and we are uncertain of whether or not this block will be lifted in the near future. However, if we initiate any access block to our services in Lebanon, it may decrease the number of our current and future subscribers from other countries, particularly in the Middle East, who may cease using our services in protest to us blocking accounts in Israeli Sanctioned Countries.

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

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

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

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 patent, trademark, copyright and trade-secret laws, as well as licensing agreements and third party nondisclosure and assignment agreements to protect our intellectual property and know-how. 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. Because of the differences in foreign trademark, patent and other laws concerning proprietary rights, our intellectual property rights may not receive the same degree of protection in foreign countries as they would in the United States. 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.

To protect our trade-secrets, know-how and other proprietary information, 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 trade-secrets, know-how, or proprietary information. Further, these agreements do not prevent our competitors from independently developing technologies that are substantially equivalent or superior to our solutions. It is possible that others will independently develop the same or similar technology or otherwise obtain access to our unpatented technology.

We have filed a number of applications for patents and copyrights to protect our technologies. While we generally apply for patents in those countries where we intend to make, have made, use, or sell patented products, we may not accurately predict all of the countries where patent protection will ultimately be desirable. If we fail to timely file a patent application in any such country, we may be precluded from doing so at a later date. We cannot assure you that the patents issuing as a result of our foreign patent applications will have the same scope of coverage as our United States patents.

Many patent applications in the U.S. are maintained in secrecy for a period of time after they are filed, and since publication of discoveries in the scientific or patent literature tends to lag behind actual discoveries by several months, we cannot be certain that we will be the first creator of inventions covered by any patent application we make or that we will be the first to file patent applications on such inventions. Because some patent applications are maintained in secrecy for a period of time, there is also a risk that we could adopt a technology without knowledge of a pending patent application, which technology would infringe a third party patent once that patent is issued.

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. 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. 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. Third parties may also oppose our trademark applications, or otherwise challenge our use of the trademarks. In the event that our trademarks are successfully challenged, we could be forced to rebrand our products, which could result in loss of brand recognition, and could require us to devote resources advertising and marketing new brands.

Although we rely on copyright laws to protect the works of authorship (including software) created by us, we do not register the copyrights in all of our copyrightable works. Copyrights of U.S. origin must be registered before the copyright owner may bring an infringement suit in the United States. Furthermore, if a copyright of U.S. origin is not registered within three months of publication of the underlying work, the copyright owner is precluded from seeking statutory damages or attorney's fees in any United States enforcement action, and is limited to seeking actual damages and lost profits. Accordingly, if one of our unregistered copyrights of U.S. origin is infringed by a third party, we will need to register the copyright before we can file an infringement suit in the United States, and our remedies in any such infringement suit may be limited. Any of our pending or future patent, copyright or trademark applications, whether or not challenged, may not be issued with the scope of the claims we seek, if at all. We are unable to guarantee that additional patents, copyrights or trademarks will issue from pending or future applications or that, if patents, copyrights or trademarks issue, they will not be challenged, invalidated or circumvented, or that the rights granted under the patents, copyrights or trademarks will provide us with meaningful protection or any commercial advantage.

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 expensive and we may therefore not always be aware of such unauthorized use or misappropriation, or have adequate resources to enforce our intellectual property rights. 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.

Third parties may assert infringement claims against our users relating to our products and solutions. These claims may require us to initiate or defend protracted and costly litigation on behalf of our users, regardless of the merits of these claims. If any of these claims succeed, we may be forced to pay damages on behalf of our users or may be required to obtain licenses for the products they use. If we cannot obtain all necessary licenses on commercially reasonable terms, our users may be forced to stop using our products.

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, 1967, or the Patents 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 are owned by the employer, absent a specific agreement between employee and employer giving the employee service invention rights. The Patents Law also provides that in the absence of an agreement between the employer and employee (or a person deemed to be an employee) that prescribes whether, to what extent, and on what conditions the employee is entitled to remuneration for his or her service inventions, the employee is entitled to refer the matter to the Israeli Compensation and Royalties Committee, a body constituted under the Patents Law, which will determine whether the employee is entitled to such remuneration. The Patents Law provides general guidelines for determining this Committee-enforced remuneration, which have not yet been applied by the Committee in its rulings. Although our contractors or employees, in Israel and in the other jurisdictions in which we operate, 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 current or former contractors or employees, or be forced to litigate such claims, which could negatively affect our business.

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 directly against us, or against our users or other business partners using our technology. 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, whether resulting in litigation or not, could result in substantial expenses and time spent, 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 in order to obtain the right to use a third party’s intellectual property, stop selling or marketing some or all of our solutions or services or re-brand our solutions or services. Any licensing agreements, if required, may not be available to us on acceptable terms or at all. 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.

If our estimates or judgments relating to our critical accounting policies prove to be incorrect, our results of operations could be adversely affected.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, as provided. The results of these estimates form the basis for making judgments about the carrying values of assets, liabilities and equity, and the amounts of revenue and expenses that are not readily apparent from other sources. Significant assumptions and estimates used in preparing our consolidated financial statements include those related to revenue recognition, capitalization of our internal-use software development costs and accruals and contingencies. Our results of operations may be adversely affected if our assumptions change or if actual circumstances differ from those in our assumptions, which could cause our results of operations to fall below the expectations of securities analysts and investors, resulting in a decline in the trading price of our ordinary shares.

Changes in financial accounting standards or practices may cause adverse, unexpected financial reporting fluctuations and affect our results of operations.

A change in accounting standards or practices may have a significant effect on our results of operations and may affect our reporting of transactions completed before the change is effective. New accounting pronouncements and varying interpretations of accounting pronouncements have occurred and may occur in the future. Changes to existing rules or the application thereof and changes to current practices may adversely affect our reported financial results or the way we conduct our business.

For example, Accounting Standards Codification (“ASC”) 606, “Revenue from Contracts with Customers,” became effective on January 1, 2018. We adopted ASC 606 on January 1, 2018, and it resulted in an adjustment of \$18.3 million to our opening retained earnings as of January 1, 2018. There may be other standards that become effective in the future that may have a material impact on our consolidated financial statements, such as Accounting Standards Update (“ASU”) 2016-12, “Leases,” which became effective on January 1, 2019, and will result in a significant gross up of both our assets and liabilities. In addition, changes to our arrangements with service providers and other contractual counterparties can require changes to our future results of operations. For example, changes to our agreement with Google, Inc. in January of 2018 required us to change from net (agent) to gross (principal) accounting, which has a dampening effect on our gross margins. Our gross margin for the year ended December 31, 2018 was 79%, compared to 84% in the year ended December 31, 2017.

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

Our services depend on the ability of our registered users to access the Internet. Currently, this access is provided by companies that have significant market power in the broadband and Internet access marketplace, including incumbent telephone companies, cable companies, mobile communications companies and government-owned service providers. Laws or regulations that adversely affect the growth, popularity or use of the Internet, including changes to laws or regulations impacting Internet neutrality, could decrease the demand for our products, increase our operating costs, require us to alter the manner in which we conduct our business and/or otherwise adversely affect our business. 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. For example, paid prioritization could enable ISPs to impose higher fees and otherwise adversely impact our business. Internationally, government regulation concerning the Internet, and in particular, network neutrality, may be developing or non-existent. Within such a regulatory environment, we could experience discriminatory or anti-competitive practices that could impede both our and our customers’ domestic and international growth, increase our costs or adversely affect our business.

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, including those who purchase premium subscriptions and excluding users of certain products which are considered stand-alone products. The number of registered users as we define it may be higher than the actual number of individual users, because some users have multiple registrations and others may have registered under different or fictitious names. Furthermore, the number of websites created may differ from the number of registered users since a registered user can create multiple websites or not create a website at all. The length of time that registered users take, following registration, to design and publish a website varies significantly from hours to years. Some registered users may never publish a website, others may publish several websites. We consider the rate at which registered users from a particular period generate premium subscriptions and the revenue we generate from such premium subscriptions to be material to our business. For example, in the fourth quarter of 2018, 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 individual users, our user base, which we believe is important to the growth of our premium subscriptions, may be overstated. If that is the case, our business may not grow as fast as we expect, and our financial results and business prospects may be harmed.

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

There is a risk that U.S. states could assert that we or our 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 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 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 subsidiaries give rise to a nexus. We and our 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. Multiple U.S. states have enacted related legislation relating to the taxation of e-commerce and other states are now considering such legislation. Furthermore, the U.S. Supreme Court recently has held in *South Dakota v. Wayfair* that a U.S. state may require an online retailer to collect sales taxes imposed by that state, even if the retailer has no physical presence in that state, thus permitting a wider enforcement of such sales tax collection requirements. Such legislation could require us to incur substantial costs in order to comply, including costs associated with legal advice, tax calculation, collection, remittance and audit requirements, which could make selling in such markets less attractive and could adversely affect our business. 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.

Our Convertible Notes may impact our financial results, result in the dilution of existing shareholders, create downward pressure on the price of our ordinary shares, and restrict our ability to take advantage of future opportunities.

In June and July of 2018, we sold \$442.75 million aggregate principal amount of 0.00% Convertible Senior Notes due 2023, or the Convertible Notes. The sale of the Convertible Notes may affect our earnings per share figures, as accounting procedures may require that we include in our calculation of earnings per share the number of ordinary shares into which the Convertible Notes are convertible. The Convertible Notes may be converted, under the conditions and at the premium specified in the Convertible Notes, into cash and our ordinary shares, if any (subject to our right to pay cash in lieu of all or a portion of such shares). If our ordinary shares are issued to the holders of the Convertible Notes upon conversion, there will be dilution to our shareholders' equity and the market price of our ordinary shares may decrease due to the additional selling pressure in the market. Any downward pressure on the price of our ordinary shares caused by the sale or potential sale of shares issuable upon conversion of the Convertible Notes could also encourage short sales by third parties, creating additional selling pressure on our share price.

In addition, in connection with the pricing of the Convertible Notes, we entered into privately negotiated capped call transactions, or the Capped Call Transactions, with certain of the purchasers of the Convertible Notes. The Capped Call Transactions cover, collectively, the number of our ordinary shares underlying the Convertible Notes, subject to anti-dilution adjustments substantially similar to those applicable to the Convertible Notes. The cost of the Capped Call Transactions was approximately \$45.3 million. The Capped Call Transactions are expected generally to reduce the potential dilution to the ordinary shares upon any conversion of the Convertible Notes and/or offset any cash payments we are required to make in excess of the principal amount upon conversion of the Convertible Notes under certain events described in the Capped Call Transactions.

We may not have the ability to raise the funds necessary to settle conversions of the Convertible Notes, repurchase the Convertible Notes upon a fundamental change or repay the Convertible Notes in cash at their maturity, and our future debt may contain limitations on our ability to pay cash upon conversion or repurchase of the Convertible Notes.

Holder of the Convertible Notes will have the right under the indenture governing the Convertible Notes to require us to repurchase all or a portion of their Convertible Notes upon the occurrence of a fundamental change before the applicable maturity date at a repurchase price equal to 100% of the principal amount of such Convertible Notes to be repurchased, plus accrued and unpaid interest, if any, to, but excluding, the applicable fundamental change repurchase date. Moreover, we will be required to repay the Convertible Notes in cash at their maturity, unless earlier converted or repurchased. Although we entered into the Capped Call Transactions which are expected generally to offset any cash payments we are required to make in excess of the principal amount upon conversion of the Convertible Notes, we may not ultimately receive such cash payments from the sellers of the Capped Call due to credit restrictions or due to other beyond our control, or we may not have enough available cash or be able to obtain financing at the time we are required to make repurchases of such Convertible Notes surrendered or pay cash with respect to such Convertible Notes being converted.

In addition, our ability to repurchase or to pay cash upon conversion of Convertible Notes may be limited by law, regulatory authority, restrictions vested in the sellers of the Capped Call, or agreements governing our future indebtedness. Our failure to repurchase the Convertible Notes at a time when the repurchase is required by the indenture or to pay cash upon conversion of such Convertible Notes as required by the indenture would constitute a default under the indenture. A default under the indenture or the fundamental change itself could also lead to a default under agreements governing our future indebtedness. If the payment of the related indebtedness were to be accelerated after any applicable notice or grace periods, we may not have sufficient funds to repay the indebtedness and repurchase the Convertible Notes or to pay cash upon conversion of the Convertible Notes.

We may still incur substantially more debt or take other actions that would diminish our ability to make payments on the Convertible Notes when due.

We and our subsidiaries may be able to incur substantial additional debt in the future, subject to the restrictions contained in our debt instruments, some of which may be secured debt. We are not restricted under the terms of the indenture governing the Convertible Notes from incurring additional debt, securing existing or future debt, recapitalizing our debt or taking a number of other actions that are not limited by the terms of the indenture that could have the effect of diminishing our ability to make payments on the Convertible Notes when due. While the terms of any future indebtedness we may incur could restrict our ability to incur additional indebtedness, any such restrictions will indirectly benefit holders of the Convertible Notes only to the extent any such indebtedness or credit facility is not repaid or does not mature while such Convertible Notes are outstanding.

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.

Our business could be negatively affected as a result of shareholder activism, and such activism could impact the trading value of our securities.

In recent years, U.S. and non-U.S. companies listed on securities exchanges in the United States have been faced with governance-related demands from activist shareholders, unsolicited tender offers and proxy contests. Shareholder activists frequently propose to involve themselves in the governance, strategic direction, and operations of companies. Although, as a foreign private issuer, we are not subject to U.S. proxy rules, responding to any action of this type by activist shareholders could divert management attention, be costly and time-consuming, and generally disrupt our operations and ability to execute our strategic plans. In addition, a proxy contest for the election of directors at our annual meeting would require us to incur significant legal fees and proxy solicitation expenses. In addition, actions of activist shareholders may cause significant fluctuations in our share price based on temporary or speculative market perceptions or other factors that do not necessarily reflect the underlying fundamentals of our business.

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 (the “FCPA”), the U.K. Bribery Act 2010 (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, 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. As a result, we are exposed to a risk of violating anti-bribery laws in the countries where we operate. Although we have internal policies and procedures, including a corporate code of ethics and conduct and an anti-corruption compliance policy, reasonably designed to promote compliance with anti-bribery laws, we cannot assure that our employees or other agents will not engage in prohibited conduct and render us responsible under the FCPA, the U.K. Bribery Act or any similar anti-bribery laws in other jurisdictions. If we are found to be in violation of the FCPA, the U.K. Bribery Act or other anti-bribery laws (either due to acts or inadvertence of our employees, or due to the acts or inadvertence of others), we could suffer criminal or civil penalties or other sanctions, which could have a material adverse effect on our business, results of operations, cash flows, financial condition, reputation and ability to win future business or maintain existing contracts.

The results of the United Kingdom’s referendum on withdrawal from the European Union may have a negative effect on global economic conditions, financial markets and our business.

In June 2016, a majority of voters in the U.K. elected to withdraw from the E.U. in a national referendum, following which, in March 2017, the U.K. notified the E.U. of its intention to exit as provided in Article 50 of the Treaty on European Union, in what is commonly referred to as “Brexit”. Brexit may adversely impact the level of economic activity in the U.K. and E.U. and our users’ use of our products, and we could face increased exposure to foreign currency risks, each of which could adversely affect our operating results. Brexit has also created significant uncertainty about the future relationship between the U.K. and the E.U, including with respect to the laws and regulations that will apply as the U.K. determines which E.U. laws to replace or replicate in the event of a withdrawal. Any of these factors could depress economic activity and restrict our access to capital, which could have a material adverse effect on our business, financial condition and results of operations and reduce the price of our common stock.

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 \$125.84 per share and as low as \$14.28 per share through March 29, 2019. During 2018, our ordinary shares traded as high as \$121.45 per share and as low as \$55.80 per share. In addition, the market price of our ordinary shares could be highly volatile and may fluctuate substantially as a result of many factors, some of which are beyond our control, including, but not limited to:

- actual or anticipated fluctuations in our and our competitors' results of operations;
- variance in our and our competitors' financial performance from the expectations of market analysts;
- announcements by us or our competitors or other global corporations of significant business developments, changes in service provider relationships, acquisitions or expansion plans;
- announcements of technological innovations by us or our competitors;
- changes in the prices of our solutions;
- developments concerning intellectual property rights, including our involvement in litigation;
- our sale of ordinary shares or other securities in the future, or such sales by our significant shareholders;
- market conditions in our industry;
- changes in key personnel;
- the trading volume of our ordinary shares;
- changes in the estimation of the future size and growth rate of our markets;
- general economic and market conditions; and
- our failure to meet our financial guidance or any component thereof in any given quarter or year (or failure by our competitors to meet their own guidance).

The price of our ordinary shares could also be affected by possible sales of our ordinary shares by investors who view our Convertible Notes as a more attractive means of equity participation in us and by hedging or arbitrage trading activity that may develop involving our ordinary shares and Convertible Notes.

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.

We cannot guarantee that we will repurchase any of our ordinary shares pursuant to our announced share repurchase plan or that our share repurchase plan will enhance long-term shareholder value.

On November 12, 2018, our Board of Directors authorized a share repurchase plan under which up to \$100 million is available to purchase our ordinary shares, which plan received court approval in accordance with Israeli law on January 1, 2019. The share repurchase plan, as authorized by the court, authorizes repurchases through June 30, 2019. The specific timing and amount of repurchases, if any, will depend upon several factors, including market and business conditions, the trading price of our ordinary shares, and the nature of other investment opportunities. In addition, our ability to repurchase may be limited by law, regulatory authority or agreements with third parties.

Repurchases of our ordinary shares pursuant to our share repurchase plan could affect the market price of our ordinary shares or increase its volatility. Additionally, our share repurchase plan could diminish our cash reserves, which may impact our ability to finance future growth and to pursue possible future strategic opportunities and acquisitions. There is no assurance that our share repurchase plan will enhance long-term shareholder value, and short-term share price fluctuations could reduce the share repurchase plan's effectiveness.

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

the composition of our board of directors which has the authority to direct our business and to appoint and remove our officers;

· approving or rejecting a merger, consolidation or other business combination;

· raising future capital; and

· amending our articles of association which govern the rights attached to our ordinary shares.

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

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

If our existing shareholders, particularly our largest shareholders, our directors, their affiliates, or our executive officers, sell a substantial number of our ordinary shares in the public market, the market price of our ordinary shares could decrease significantly. This includes sales by our four largest shareholders who, as of March 15, 2019 beneficially owned 24.7% 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, or the perception that such sales could occur, could adversely affect the market price of our ordinary shares, may make it more difficult for investors to sell ordinary shares at a time and price which such investors deem appropriate, and could impair our future ability to obtain capital, especially through an offering of equity securities.

As of February 28, 2019, 10,709,575 ordinary shares are subject to outstanding option and restricted share unit, or RSU, awards granted to employees and office holders under our share incentive plans, including 5,220,501 ordinary shares issuable under currently exercisable share options. Upon issuance, such shares may be freely sold in the public market, except for shares held by affiliates who have certain restrictions on their ability to sell.

As a foreign private issuer whose shares are listed on the NASDAQ Global Select Market 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 Select Market, or NASDAQ, 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 $\frac{1}{3}$ % of our issued share capital. We may in the future elect to follow home country practice in Israel with regard to matters such as 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, and the loss of foreign private issuer status could adversely affect us.

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.

In order to maintain our current status as a foreign private issuer, more than 50% of our outstanding voting securities must not be directly or indirectly owned by residents of the U.S., and we must not have any of the following: (i) a majority of our executive officers or directors being U.S. citizens or residents, (ii) more than 50% of our assets being located in the U.S., or (iii) our business being principally administered in the U.S. Although we have elected to comply with certain U.S. regulatory provisions, our loss of foreign private issuer status would make such provisions mandatory. In addition, if we were to no longer qualify as a foreign private issuer, the regulatory and compliance costs to us under U.S. securities laws as a U.S. domestic issuer may be significantly higher. If we did not qualify as a foreign private issuer, we would 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, and we also could be required to modify certain of our policies to comply with good governance practices associated with U.S. domestic issuers, which would involve additional costs. In addition, the loss of foreign private issuer status could eliminate our ability to rely upon exemptions from certain NASDAQ corporate governance requirements that are available to foreign private issuers.

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

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

We may be classified as a passive foreign investment company, which could result in adverse U.S. federal income tax consequences to U.S. Holders of our ordinary shares.

We would be classified as a passive foreign investment company (“PFIC”) for any taxable year if, after the application of certain look-through rules, either: (i) 75% or more of our gross income for such year is “passive income” (as defined in the relevant provisions of the Internal Revenue Code of 1986, as amended (the “Code”)), or (ii) 50% or more of the value of our assets (determined on the basis of a quarterly average) during such year is attributable to assets that produce or are held for the production of passive income. Based on the trading price of our ordinary shares and the composition of our income, assets, and operations, we do not expect to be treated as a PFIC for U.S. federal income tax purposes for the taxable year that ended on December 31, 2018, and we do not expect to be treated as a PFIC for our current taxable year. However, this is a factual determination that must be made annually after the close of each taxable year. Moreover, the value of our assets for purposes of the PFIC determination generally will be determined by reference to the trading price of our ordinary shares, which could fluctuate significantly. Therefore, there can be no assurance that we will not be classified as a PFIC in any taxable year. Certain adverse U.S. federal income tax consequences could apply to a U.S. Holder (as defined below) if we are treated as a PFIC for any taxable year during which such U.S. Holder holds our ordinary shares. Accordingly, each U.S. Holder of our ordinary shares should consult its own tax advisor as to the potential effects of the PFIC rules. See “Item 10.E. Additional Information—Taxation—United States Federal Income Tax Considerations.”

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 allow public companies to adopt shareholder resolutions by written consent, thereby requiring all shareholder actions to be taken at a general meeting of shareholders;

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

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

our articles of association do not permit a director to be removed except by a vote of the holders of at least $66\frac{2}{3}\%$ 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.

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 of 2002 (the “Sarbanes-Oxley Act”) requires, among other things, that we maintain effective internal control over financial reporting and disclosure controls and procedures. Pursuant to Section 404(a) of the Sarbanes-Oxley Act, we are required to furnish a report by management on the effectiveness of our internal control over financial reporting, and pursuant to Section 404(b) of the Sarbanes-Oxley Act, 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. Additionally, as part of management’s assessment 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 SEC, NASDAQ 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. 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. Israeli civilians continue to be the target of terrorist threats. 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. For example, in December 2018, the Lebanese government has blocked the access to our platform in Lebanon. 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.

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

As of December 31, 2018, we had 1,580 employees based in Israel. Our employees in Israel, including executive officers, may be called upon to perform up to 56 days per each three year period, (in some cases more, e.g. officers may be called to serve up to 84 days per each three year period) of military reserve duty until they reach the age of 40 (and in some cases, depending on their certain military profession up to 45 or even 49) and, in emergency circumstances, could be called to immediate and unlimited active duty (however, this would need to be approved by the Israeli government). In response to increased tension and hostilities, there have been since September 2000 occasional call-ups of military reservists, including in connection with the mid-2006 war in Lebanon, the December 2008 conflict with Hamas and the 2012 and 2014 conflicts in the Gaza Strip, and it is possible that there will be additional call-ups in the future. Our operations could be disrupted by the absence of a significant number of employees related to military service or the absence for extended periods of one or more of our key employees for military service. Such disruptions in the future could materially adversely affect our business and results of operations, especially if we are unable to replace these key employees with other personnel qualified in information technology and data optimization.

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

We are eligible for certain tax benefits provided to “Beneficiary Enterprises” under the Israeli Law for the Encouragement of Capital Investments, 1959, referred to as the Investment Law. In order to remain eligible for the tax benefits for “Beneficiary Enterprises” we must continue to meet certain conditions stipulated in the Investment Law and its regulations, as amended. Most recently, the Investment Law was amended as part of the Economic Efficiency Law that became effective on January 1, 2017, or Amendment 73, under which a new incentive regime would apply to “Preferred Technological Enterprises” and “Special Preferred Technological Enterprises” that meet certain conditions stipulated under Amendment 73. In addition, in September 2011, we received a tax ruling from the Israeli Tax Authority, according to which, among other things, the Israeli Tax Authority approved (i) our status as an “Industrial Enterprise”; and (ii) that the expansion of our enterprise is considered as a “Beneficiary Enterprise” with 2009 as an elected year of operations, all under the Investment Law as amended by 2005 Amendment. The benefits available to us under this tax ruling are subject to the fulfillment of conditions stipulated in the ruling. If we do not meet these conditions, the ruling may be abolished which would result in adverse tax consequences to us. Further, in the future these tax benefits may be reduced or discontinued. If these tax benefits are reduced, cancelled or discontinued, our Israeli taxable income would be subject to regular Israeli corporate tax rates. The standard corporate tax rate for Israeli companies was 25% for 2016, and decreased 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 an alleged 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 material 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 material 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 (unless the meeting was called pursuant to a request by our shareholders, in which case the quorum required is the number of shareholders required to call the meeting according to the Companies Law).

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 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 2017, we launched Wix Code, a new development platform that enables users to build more advanced websites and web applications. In 2018, we launched a number of additional products that enable users to manage and grow their businesses, most notably Ascend by Wix.

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 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 SEC filings are available to you on the SEC's website at <http://www.sec.gov>. This site contains reports and other information regarding issuers that file electronically with the SEC. The information on that website is not part of this annual report and is not incorporated by reference herein. 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 2018, 2017, and 2016 amounted to \$14.1 million, \$12.4 million and \$4.4 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 2019 to be approximately \$22 million and to be financed from our cash balance and cash flow generated from current activities.

B. Business Overview

We are a leading global cloud-based development platform for millions of registered users worldwide. We were founded on the belief that the Internet should be accessible to everyone and to enable businesses and organizations to take their businesses, brands and workflow online to create and manage a fully integrated and dynamic digital presence. As of December 31, 2018, we empower approximately 142 million registered users worldwide. We are pioneering a new approach to web development and management that provides an easy-to-use yet powerful cloud-based platform of products. We offer our solutions through a freemium model (free and premium services) and as of December 31, 2018, we had 3,983,415 premium subscriptions.

Our core product consists of three web editors: the Wix Editor, intended for users with basic technological skills, Wix ADI, intended for novice users and Wix Code, intended for more tech savvy users.

The Wix Editor is 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 brand's specific look and feel, that is accessible across all major browsers and the most widely used desktop, tablet and mobile devices.

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

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

We also offer a variety of additional services to further complement and enhance our users' needs, most notably Ascend by Wix, which was launched in the fourth quarter of 2018, offering our users access to a suite of approximately 20 products or features enabling them to easily connect with their customers, automate their work, and grow their business, including capabilities to manage all of their customer interactions, capture leads, build relationships, take payments, and run email, social, and video campaigns to promote their business, all in one place. Additional services also include Wix Logo Maker, which allows users to generate a customizable, high-resolution logo in minutes using artificial intelligence, Wix Answers, a support infrastructure enabling our users to help their users across multiple channels, and Wix Payments, a payment platform that helps our users receive payments from their users through their Wix website.

We also offer several vertical-specific applications 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 custom front-end for users of their website, as well as a robust back-end management dashboard. We have developed these software applications for businesses in specific verticals, including retail and online stores, service providers, hotel and property management, music, photography and restaurants, among other verticals. These vertical applications are integrated into our website templates or can be installed on any existing website and set up with minimal effort by the user and without the need to write code.

In addition, we provide a range of complementary services to address the needs of our users, including our App Market, which was launched in 2012 and offers our registered users the ability to easily install and uninstall a variety of free and paid web applications that we developed ourselves or identified and selected through third-party developers for inclusion in our App Market, based on user needs and demand. These web applications add additional functionality and are easily integrated into registered users' websites with one click, without the need for any coding, and include social plug-ins, online marketing and customer relationship management tools, contact forms and transactional and payment processing capabilities. Additional complementary services include, among others, the Wix Arena, an online marketplace which brings users seeking help in creating and managing a website, together with talented web experts and the Wix App, a native mobile application enabling users to manage their websites and Wix operating systems on the go.

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.

Our scale and reach makes us an attractive partner for companies interested in distributing their own solutions to our 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. 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 anyone to create and manage a digital presence in their own language. We currently enable our users to create their websites in any language and offer our platform in nineteen languages — English, French, Spanish, Portuguese, Italian, Russian, German, Japanese, Korean, Polish, Dutch, Turkish, Hindi, Norwegian, Swedish, Danish, Czech, Traditional Chinese and Thai and we plan to add more languages in the future.

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 a dynamic, professional digital presence. We also believe that there is a significant opportunity to provide solutions that help businesses manage operations and grow online through vertical Enterprise Resource Planning (ERP), marketing, mobile, customer management and communication products and tools.

Our Offerings

Wix is a cloud-based development platform for millions of registered users worldwide which was founded on the belief that the Internet should be accessible to everyone to develop, create and contribute. Through free and premium subscriptions (freemium model), Wix empowers millions of businesses, organizations, artists, and individuals to take their businesses, brands and workflow online.

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.

Free Products and Services

Our registered users receive access to hundreds of free design templates for personal and business use, free web hosting through a Wix domain, free access to our App Market, which offers a variety of free and paid applications, and blog and social network page support. The websites developed using our free product contain Wix advertisements in the footer and header 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 include the following features and capabilities:

Web Editors

By registering with our service, our users gain free access to three different web editors: the Wix Editor, intended for users with basic technological capabilities, Wix ADI, intended for novice users and Wix Code, intended for more tech-savvy users. These three web editors enable our users to design and manage as many websites as they choose, in order to establish or enhance their digital presence. No installation of software is necessary to use these web editors, as our advanced editing and design platform is accessible through the cloud directly from our website. All of our web editors allow registered users to optimize their existing Wix sites for viewing on mobile devices. Our mobile site technology is also based on HTML5 and allows registered users to customize their sites for different mobile devices, yet share design elements and all site data between the different variants. We do not currently charge for our mobile solution.

· Wix Editor

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

· Wix Artificial Design Intelligence

We launched Wix Artificial Design Intelligence, or Wix ADI, in 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 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. In 2018, we introduced Wix on Mobile, a mobile website builder that utilizes the ADI technology, allowing users to create and manage a customized website entirely on a mobile device.

· Wix Code

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

Additional Complementary Products and Services

· Wix App Market

The Wix App Market is a marketplace that offers our registered users a large variety of free and paid web applications for building, growing, and managing their businesses. The web applications available in the App Market meet our users' business needs in marketing, support, bookings, accounting, design, social and media apps, and more.

Since the launch of the App Market in 2012 through December 31, 2018, registered users have installed millions of web applications. Through our easy-to-use drag-and-drop technology users can install or remove as many web applications as they would like within moments.

The App Market consists of web applications that are developed by us or by third-party developers. All third-party applications undergo a limited evaluation which is focused mainly on technical functionality, and partner agreements are signed prior to publication in the App Market. We are customarily entitled to a share in 30% of net revenues from the sale of every third-party application purchased through our App Market. We are responsible for the development, operation and maintenance of applications that we create, and the third-party developers are responsible for the applications that they create. However, we may remove a third-party application at any time if it does not meet our standards or for other reasons.

· Wix Arena

Wix Arena is an online marketplace which brings our users seeking help in creating and managing a website, together with our users who are talented web experts, who can help the former to build and operate a website that fits their needs and bring their vision to life. The Wix Arena is offered to users free of any brokerage fee. Users can search through hundreds of talented web experts filtered using different criteria such as price and location, and explore their portfolios in order to find the expert who best meets their needs.

· Wix App

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

· Wix Dashboard

Our users have access to a set of tools to manage their site and business directly from a back-office dashboard and sidebar which display helpful information regarding the user's site and business, as well as recommended applications and helpful tips.

· Wix Support and Call Center

Our customer solutions experts operate the Wix Support and Call Center using the Wix Answers solution. 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 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, 2018, we had approximately 500 Support and Call Center employees, located in the United States, Ireland, Israel and Ukraine.

Paid Products and Services

Premium Subscriptions

Our premium subscriptions are purchased primarily by businesses, organizations and professionals in a variety of fields, such as art, finance, entertainment, music, photography, tourism, beauty, sports, food services, property management or publishing. The customers of our premium subscriptions are not concentrated in any particular field. Our premium subscriptions offer all of the features of our Wix Editor, Wix ADI, Wix Code and our other complementary products and services, but also include the ability to connect a domain as well as features tailored to more specific business needs, such as eCommerce (online stores), receiving payments, and marketing tools such as Google Analytics. 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.

Recently, we introduced two tiers of premium subscription plans: Website and Business & eCommerce. Business & eCommerce plans include the ability to accept online payments.

Our premium subscriptions offer the following additional features and capabilities:

·Connect Your Domain

Most 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

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

· Removing Wix
Brand Ads

All of our premium subscriptions provide a website without the Wix advertisements that are placed in the footer and header of free Wix websites.

·Premium Support Services

All of our premium subscriptions receive access to Wix Premium Support which grants them the full benefits of the Wix Support Center and Call Center, including priority access to our team of customer solutions experts, who prioritize premium subscription questions and requests over other user questions. We also offer our users with VIP premium subscriptions several additional features, which enable them to contact a dedicated team of support specialists or to receive a prompt call-back from us via our Priority Call Back service, if a support specialist is not immediately available. 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 ticketing system.

Ascend by Wix

In the fourth quarter of 2018, we launched Ascend by Wix, a suite of approximately 20 products and features which enable users to easily connect with their customers, automate their work, and grow their business. Ascend by Wix is an inbox and chat-centric product that allows users to discover tools that they might not know they need, and includes the following products:

Inbox - allows users to manage all their communications and interactions in one place. With Inbox, users are able to respond to messages of their users and track every service booking and product order.

Chat - enables our users to build relationships with their current and potential users by providing chat capabilities directly from desktop or mobile via the Wix App. Users can know instantly when a new user visits their site or when they purchase a product or book an appointment.

Forms - allows users to create custom forms, surveys and quizzes to gather leads, collect testimonials and feedback from their users, and receive file uploads.

Contact Manager - allows users to keep track of their contacts and add relevant notes and labels, which enables our users to improve the customer service they provide to their users.

Automations - allows our users to set up automatic triggered actions on their site in order to help them collect leads and manage their work throughout the day.

Members - helps users build a stronger connection with their users and contacts. It allows site members to log into the user's site and track their account activity including by joining conversations, following posts, uploading videos, and writing comments.

Price Quotes - enables users to create and send pricing options to potential customers and allows them to accept offers online.

Invoices - enables users to create, send and manage invoices, and facilitates payment from their users. Invoices also help streamline tracking of customer payments.

Workflows - allows users to prioritize projects and sales funnels at a glance. Users can easily collaborate with staff and stay on top of their workload.

Tasks & Reminders - help our users organize and manage their tasks in a handy to-do list, so that they can meet deadlines and maximize their workday.

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

Email Marketing (formerly known as Wix ShoutOut) - an integrated email marketing product which enables registered users to easily create and send customized email campaigns, such as newsletters, updates and promotions directly from their Wix accounts. Wix Email Marketing allows our users to utilize their contact lists, which are stored and managed in their accounts, thus addressing the critical business need of effective client communication management.

Social Posts - provides our users with content and inspiration solutions for their Facebook and Instagram feed. It allows users to stand out in their social feed by choosing the desired designs from a variety of trendy designs, and editing them according to the brand's needs. Users can share the file created to their Facebook page, Instagram feed or download it and share it via additional channels.

Video Maker - allows users to instantly create a promotional video for their business. Videos are automatically created from any product page, or easily created from various templates. Users can customize media, text, soundtrack and business info, instantly share videos to Facebook and YouTube videos, or use them anywhere on their site.

Marketing Integrations - connects to third party API applications to enable our users to add additional powerful marketing tools. Through these integrations our users can connect various external marketing APIs, directly from their site dashboard. Our marketing integrations include Google analytics, Facebook Pixel and Google tag manager, as well as analytics and tracking capabilities and additional tools.

Coupons - allows users to share their own customized discount coupons for specific products and services to help boost customer retention.

Users can purchase Ascend by Wix on a monthly or annual subscription basis, and can choose between various price points based on the number of contributors, lead-capture forms, customizable forms, and email-campaigns-per-month required.

Wix Payments

In 2018, we introduced Wix Payments, a comprehensive payments platform that helps users accept payments through their website. Wix Payments allows users to set up and accept payments, in an automated and instant onboarding process made entirely within the Wix platform. Wix Payments also includes a dashboard to view history of online transactions, from sales to payouts, in a single place, solving a significant challenge with doing business online. Many types of businesses, including e-commerce retailers, service providers, musicians, photographers and many more, will be able to take advantage of the efficiency, reliability and safety provided by Wix Payments. Wix Payments is currently active in Brazil, the U.S. and several EU countries, and is intended to be expanded to additional countries.

Wix Logo Maker

In 2018, we launched the Wix Logo Maker. Wix Logo Maker generates a customizable, high-resolution logo in minutes using artificial intelligence, providing users with a critical piece for building an online brand. Through Wix Logo Maker, users can design a stunning logo, get downloadable professional vector files in a variety of sizes and color formats, custom design and order business cards with their customized business logo, and build a website based on the styles and colors of their customized business logo.

Wix Answers

Wix Answers is the platform that currently serves as the support infrastructure for our Customer Support team. In the first quarter of 2018 we began to offer this platform to Wix users and other businesses, enabling them to help their users across multiple channels. Wix Answers can be customized to any type of business with an intuitive set-up and offers a knowledge base, ticketing system, and call center, each of which can be purchased individually or as a bundle. It also offers integration with other platforms, actionable insights, and an embeddable widget that can be used with any website.

Domains

We offer our users the ability to choose and connect their own domain name to their website to better enhance their brand. Domain names are offered as a stand-alone product, but are included as part of our premium subscription offerings. Registered users without a premium subscription are assigned a domain name which includes the Wix site address.

Mailbox

We act as re-sellers for Google's G-Suite application, which allows our users to create a personalized Gmail email address using their domain name, to enable them to send professional emails from their business address, create group mailing lists for sales, support, email marketing and more.

Wix Vertical Applications

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

· Wix Stores

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

· Wix Bookings

Wix Bookings, which was launched in 2016, is an end-to-end online booking solution, giving businesses an easy and effective way to showcase their services, allow online scheduling, as well as manage their schedule. The solution helps business owners from a variety of verticals to acquire more business by allowing customers to book online appointments, classes, and courses, keep track of their schedule by synchronizing with their primary Google Calendar, reduce no-shows by sending auto-reminder emails to customers, sell membership and packages, and customize products.

· Wix Hotels

Wix Hotels offers a complete booking engine that is fully integrated into a Wix website for hotels, B&Bs and vacation rentals, making it simple to build and maintain the room inventory complete with pricing, booking, reservation and payment management capabilities. Through their dashboards, hotel owners can easily add reservations made elsewhere and manage their entire room inventory in one place. As a result of certain engagements with third parties, hotel owners can accept and manage bookings that come through many online travel agencies and marketplaces.

· Wix Music

Wix Music is a complete solution for musicians and entertainers which includes an advanced music player, commission free sales, an easy to use digital asset management system, tracking and metrics, concert promotion and ticketing, fan management and communication tools and a range of specifically designed music website templates. All of these components are seamlessly packaged, empowering musicians to leverage the web to drive awareness and professionally promote and sell their music directly from their Wix websites. Optimized for mobile devices, Wix Music ensures music sharing and purchasing can continue on-the-go. Through Wix Music we offer the Wix Podcast Player which allows Wix users to showcase podcasts directly on their site thus enabling podcasters to build a business around their podcast, and allows businesses to enrich the content on their site with relevant podcasts.

· Wix Restaurants

Wix Restaurants provides various solutions for restauranteurs, including Wix Restaurants Menus, Wix Restaurants Orders and Wix Restaurants Reservations. Wix Restaurants Menus enables restauranteurs to easily create a menu on their Wix website, using professionally created layouts offered on our site. 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. Wix Restaurants Reservations lets restaurant owners take online table reservations from their restaurant site and confirm and manage reservations via their Wix dashboard.

· Wix Photography

Wix Photography is a comprehensive solution for photographers looking to create their portfolio and manage their business online, from both desktop and mobile. Our dedicated solution includes multiple templates custom designed for photographers, dozens of gallery layout options including specific features relevant for professional photographers and other visual artists, such as the ability to determine image resolution, load videos, share their portfolio on social media, sell digital or printed artwork and more. In addition to a dedicated portfolio site to showcase their art, Wix offers photographers and other visual artists relevant and widely-used 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 potential clients, and Wix Art Store allowing artists to sell their art online to their customers.

· Wix Video

Wix Video allows 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. In 2018, Wix Video added the ability to live stream and charge access for live events from desktop and mobile. Additional features that were added in 2018 include selling video downloads, customizable interactive cards placed on top of the videos, automatic sites for vloggers via ADI and direct syndication of videos to YouTube and Facebook.

· Wix Events

Wix Events is an application which enables users to create and manage their events on both desktop and mobile, send invites, collect RSVPs, sell tickets and manage a guest list. Wix Events can be used for conferences, meetups, concerts, shows, weddings, parties, and more. Users can use Wix Events to promote their events on social media.

· Wix Blog

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

· Wix Forum

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

Selling and Marketing

Our selling and marketing efforts focus primarily on online and offline advertising, and we currently employ a small sales and account management team focused on meeting the needs of web experts and design agencies.

We market our solutions and applications 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, 2018, we had approximately 142.4 million registered users and 3.9 million premium subscriptions.

User Acquisition

We engage in online and offline advertising, with a focus on acquiring new users to our platform, converting these users into premium subscribers, and increasing our revenue from them. 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 which will drive high revenue. In 2019, 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 \$113.2 million in 2016, \$141.3 million in 2017, and \$165.3 million in 2018. Our marketing expenditures are primarily 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 video sites such as YouTube, including through use of social network influencers, and we also market our solutions by purchasing generic and targeted advertisements on these websites and others. We also consult public and media relation firms to help brand and advertise our solutions and services.

·Traditional Media Advertising

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

·Other expenditures

We maintain the Wix Affiliate Program, a program where our affiliates receive a commission for directing visitors to our website, by placing Wix ads on their personal websites. From time to time we also hold webinars, promotional contests, user meet-ups and public relations events at our Tel Aviv, New York, Miami and San Francisco offices, as well as events in other locations where we have a large number of users. We also recently began to establish sales and account management teams to engage design agencies that employ large teams to build websites and applications for their clients, which we also expect to increase our user base and sell more premium subscriptions.

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 and to maximize our revenue from such subscriptions, by offering them enhanced functionalities. Registered users who convert to a premium subscription gain access to additional features some of which include, Wix ad removal, access to Google Analytics, domain connectivity, eCommerce and payment solutions. We offer a 14-day refund to introduce registered users to these additional products and solutions. Registered users can choose between monthly, yearly or multi-year premium subscriptions, and as of December 31, 2018, 83% of our net premium subscriptions were for a one-year period or more 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 that their subscriptions are about to renew or that they need to renew them before expiration, as well as coupons and other discounts on products and services to maximize our revenue from such premium subscriptions. We seek to retain premium subscriptions by offering upgrades for our premium products and free and premium applications 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 web editors. 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.

We further expect to retain premium subscriptions and maximize our revenue from them by providing improved support to design agencies that build and maintain websites and applications for their clients on our platform.

Our Technology and Infrastructure

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

HTML5-Based Design Capabilities

HTML5 is the latest and most advanced markup language available for structuring and presenting dynamic content on the Internet. Websites using HTML5 can seamlessly incorporate video, audio, fonts, graphics and animations. Moreover, rich and interactive web design and application integration can be achieved without the use of Flash. Because of these advanced capabilities, we use HTML5 as the basis for our products. 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 advanced 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 web solutions, applications and widgets to be seamlessly embedded into the websites designed by our registered users. Web solutions and applications are configured by third party developers using a self-service system called Wix Developer Center. This technology allows the user to embed third-party applications or widgets, such as ratings, news and books into the user's website by linking the application or widget's URL to the user's website. It also allows third party service integrations that need to receive website events, such as order management and financial services. All integrations are done with one click, using the Wix App Market, where the user can choose which web solutions or applications they would like to add to their website. The added application 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 application data, increasing the overall visibility of the user's digital presence.

Wix Databases

Our application development and data technology, Wix Databases, is a platform that allows our registered users and developers to create their own applications 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 applications 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. 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 in any of our main markets.

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

Research and Development

As of December 31, 2018, we had 1,310 employees and contractors focused on research and development. Our research and development team, which also includes our design team and our quality assurance 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 teams of developers in Beer-Sheva, Israel, Vilnius, Lithuania, and Berlin, Germany as well as in Ukraine in order to benefit from the significant pool of talent that is more readily available in those markets. Our research and development personnel focus primarily on enhancing our technology, improving our products, and developing new products and solutions.

Our research and development spending was \$105.4 million in 2016, \$153.6 million in 2017 and \$198.9 million in 2018. 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, developing new offerings that are tailored to our registered users' needs and often arise out of their suggestions, and improving the performance of our platform. 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 patent, trademark, copyright and trade secret laws, as well as licensing agreements and third-party nondisclosure and assignment agreements 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 for trademarks that we consider material to the marketing of our products, including the marks WIX® and the Wix logo, as well as ADI and DEVIANTART®. 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 (recently acquired by Square, Inc.) 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;

content management systems that help users build and manage content for a website such as WordPress.org and Drupal; 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, provide the ability for a business owner to build a website using their tools or have one built by their workforce.

Government Legislation and Regulation

Actions of our Registered Users

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

User Data

We hold certain personal data of our registered users, primarily, username, email address and billing details that are provided by the registered users and by the users who have purchased premium subscriptions, and may store certain personal data of the users of 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. In addition, we are subject to local data privacy legislations in the areas where we operate. We operate in accordance with the terms of our privacy policy and terms of use, which describe our practices concerning the use, transmission and disclosure of user data.

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

United States

A number of legislative proposals pending before the U.S. Congress and various state legislative bodies, concerning data privacy and data protection could affect us, as can changing regulatory guidelines and interpretations. For example, the FTC has updated its guidelines relating to children's online privacy that were issued under the Children's Online Privacy Protection Act. Additionally, some states have passed proactive, as well as reactive, information security legislation such as the California Consumer Privacy Act, or CCPA, slated to come into effect in 2020. Regulatory enforcement actions and trends in consumer class actions against other companies indicate an inclination by regulators and judges to require companies to adopt certain minimum protections and security measures to protect personal information. The costs of compliance with these laws, best practices and regulatory guidance may increase in the future as a result of changes in interpretation.

Europe

In April 2016, the European Union adopted the new GDPR, which includes more stringent data protection obligations for businesses, such as conducting a data protection impact assessment for certain processing operations imposing more obligations to respond to data breaches, increasing the scope of data subject rights and requests, and expanding the legislative requirements for data processors, as well as introducing a stricter regime of enforcement. Additionally, the GDPR has an extra-territorial effect and regulates the covered data processing activities of businesses regardless of their location or the locations of their servers. The regulation became applicable on May 25, 2018. The Company has appointed a dedicated multi-disciplinary team that is taking the necessary measures in order to be compliant with the GDPR. The current legal climate indicates that other jurisdictions will implement similar laws, and being subject to these and other laws and regulations, and 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 are subject to a number of key legal obligations under the GDPR, especially when we act as a “data controller,” as we do in relation to our users, in particular, as well as our employees. For example, among other things, we are required to inform individuals when we collect and otherwise process their personal data, and for what specific purpose, provide a means for these individuals to request access to, rectification of and erasure of their personal data, only retain personal data for as long as needed for a particular purpose, erase or review the personal data at the end of that period and 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 data 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 an individual’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, individuals 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 individual. 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). We appointed a team to develop a system for the better management of cookies and similar technologies in anticipation of the e-Privacy Regulation currently under consideration by the European regulatory authorities.

Our registered users may also collect data themselves 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,” while our obligations under the GDPR are more limited than when we are a “data controller,” as described above, certain obligations nevertheless remain, including obligations to implement adequate technical and organizational security measures and maintain records regarding all categories of processing activities under our responsibility.

Additionally, recent legislative proposals forwarded by the European Union under the Directive on Copyright in the Digital Single Market, may impose liability for copyright infringement on online platforms.

Facilities

Our principal facilities are located in Tel Aviv, Israel and consist of approximately 14,890 square meters (approximately 160,272 square feet) of leased office space. We also lease additional office space in Beer-Sheva totaling approximately 1,766 square meters (approximately 19,009 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 August 31, 2019 and March 31, 2023.

In the United States, we maintain offices in New York City, San Francisco and Miami as well as in Los Angeles where DeviantArt is located. In New York, we currently lease approximately 11,500 square feet in two separate locations. The leases for our current NY offices expire between April 30, 2019 and May 31, 2021. We entered into a new lease for our New York offices where we will lease 18,700 square feet. This new lease will expire in April 2029, and we have an option to terminate it early in March 2024. In San Francisco, we lease 34,459 square feet until February 28, 2021, of which we sublease approximately 11,000 square feet to third parties. In Miami, we lease approximately 33,000 square feet until July 31, 2025. In Los Angeles, we currently lease approximately 11,200 square feet until May 31, 2019. We entered into a new lease for our L.A. offices for 15,500 square feet which expires on November 30, 2026, with an option to extend the lease. In Lithuania, we maintain offices in Vilnius, in Germany we maintain an office in Berlin, in Ireland we maintain an office in Dublin, in Brazil we maintain an office in Santana de Parnaiba near the city of Sao Paulo and in Ukraine we maintain offices in Kiev and in Dnipro.

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 fourteen 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 Online Platform Limited (Ireland), 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, Wix.com Japan K.K., Wix.com PTY Ltd (Australia), 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).

OpenRest Ltd., a former wholly owned subsidiary of Wix.com Ltd., was recently merged into Wix.com Ltd.

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, 2018, we empower approximately 142.4 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 of products.

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 2018, we significantly increased the number of our registered users and premium subscriptions compared to 2017 and we continued to benefit from our expanded product offerings. Our revenue was \$603.7 million in 2018, which represented an increase of 42% from 2017. Our future growth will depend, in part, on our ability to grow our registered user base and premium subscriptions, to increase our revenue from our premium user base and to increase 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 2019, 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, yearly and multi-yearly premium subscriptions for our website solutions. We also generate revenue from additional paid services and solutions, including from Ascend by Wix, third-party domain registrations and from revenue sharing agreements we have with Google and with other third-party developers for applications sold through our App Market. We also generate revenue from payment processing fees derived from Wix Payments and one-time purchases from Wix Logo Maker.

Yearly and multi-yearly 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 yearly and multi-yearly 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, 2018, 83% of our net overall premium subscriptions were yearly or multi-year subscriptions and 17% were monthly subscriptions.

Our website 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 free for an unlimited amount of time. Our variety of premium subscriptions offer our registered users additional solutions such as, Wix ad removal, access to Google Analytics, domain connectivity, and payments solutions, and can be purchased at any time.

Over half of the new premium subscriptions in a typical month are generated by registered users who registered in previous months, as those 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. Therefore, we are focused on building a large registered user base, as it is a key factor in growing our premium subscription base, which is one of the major components that drive our revenues and collections. We believe this characteristic of our business model provides us with a growing pipeline of potential subscriptions as our user base grows.

In addition to growing our user base and the number of subscriptions, we seek to increase the monetization of our subscriptions by offering different pricing plans based on the needs of our users and providing our users with more products and solutions. Users that have needs for more powerful tools and features and additional products generally pay higher prices, which is another component that drives our revenues and collections.

We believe that the combination of our growing user base, our growing premium subscription base and our efforts to increase the monetization of our subscriptions, are all key factors to our success.

User Acquisition Spending

A majority of the premium subscriptions generated by users that registered during 2018 came from organic and direct sources, meaning visitors that reached us via unpaid search results or by typing the URL of our website in their browser. Our selling and marketing spending to attract additional new registered users focuses primarily on online advertising. The types of paid marketing channels that we target are primarily cost-per-click advertisements on search engines and social networking sites and targeted and generic banner advertisements on other sites. A portion of our marketing expenses are directed towards more traditional advertising, such as sponsorships and television commercials mainly in the United States.

Our registered user acquisition strategy is based on the significant amounts of data that we have accumulated regarding the behavior of registered users that we acquire from different sources. We extrapolate from this historical user behavior data to predict future user behavior and make investment decisions regarding our marketing expenditures. In order to 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, or that generate premium subscriptions at a lower rate but with a higher revenue or collections per subscription, versus acquiring more registered users that generate premium subscriptions at a lower rate or with lower revenue or collections per subscription.

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, origination of our premium subscriptions and the amount of revenue and collections we generate from these 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 2018, 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, 2018, the first quarter 2010 User Cohort generated a total of 102,101 new premium subscriptions and continued to generate premium subscriptions up through and during the first quarter of 2019.

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 - 2018. 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, 18,513 active premium subscriptions had been purchased by registered users from the first quarter 2010 User Cohort. Thirty-six (36) quarters later, as of December 31, 2018, there were still 17,913 active premium subscriptions from registered users that originated from this same cohort.

Throughout the life of this cohort, registered users have exhibited many different behaviors that result in a significant number of active premium subscriptions 36 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 has been discontinued 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.

In addition to the relationship between origination of users and premium subscriptions, we focus on the amount of revenue and collections we generate from each user cohort.

For example, we spent approximately \$1.1 million in advertising expenses to acquire the first quarter 2010 User Cohort, which continues to generate revenue and collections beyond the fourth quarter of 2018. Over time, we have been able to increase the aggregate amount of revenue and collections we generate in each cohort. Several factors enable these increases including the number of registered users in each cohort and the number of subscriptions and products purchased by users.

We believe these behaviors and trends that result in the existence of a significant number of premium subscriptions thirty-six (36) quarters after the initial quarter's active premium subscriptions and the increasing amount of revenue and collections we generate from each user cohort, demonstrate 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 maximize our revenue from our premium subscriptions, and supports our election to invest in marketing to acquire a user cohort and generate premium subscriptions, which will increase our revenue and collections from such user cohort over several quarters and years to follow.

Key Financial and Operating Metrics

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

Collections

We define collections as total cash collected by us from our customers in a given period. Collections is calculated by adding the change in deferred revenues for a particular period to revenues for the same period. Collections consists primarily of amounts from annual, multi annual and monthly premium subscriptions by registered users, which are deferred and recognized as revenues over the terms of the subscriptions and from other streams of revenue which are recognized immediately upon collection as a result of the change in accounting standards. 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 the strength of our pipeline that can generate premium subscriptions over time and enable us to increase our revenues.

Number of premium subscriptions at period end

We define this metric as the total monthly, yearly and multi-year 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 registration cohort basis. Subscriptions that are terminated are replaced by new subscriptions from users from the same cohort, generally at a similar rate. As observed in our first quarter 2010 user cohort, there is a similar number of active subscriptions in such cohort at the end of 2018 as the number that existed when the cohort was acquired 36 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, 2018 and related notes and the information contained elsewhere in this annual report. Our financial statements have been prepared in accordance with U.S. GAAP.

Components of Statements of Operations

Revenues

Sources of Revenues

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

We derive a small portion of our revenues from selling third-party domain registrations. Revenues from domain name registrations accounted for approximately 7% of revenues in 2016, 2017 and 2018.

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 application to which our registered users subscribe and revenues from our own self developed applications. Revenues from our App Market accounted for an insignificant portion of revenues in 2016, 2017 and 2018. We plan to increase the number of value-added services that we offer and the associated revenues we derive from these services.

We also generate small amounts of subscription-based revenue from Ascend by Wix, non-subscription based revenue from payment processing fees deriving from Wix Payments and one-time purchases from Wix Logo Maker.

Payment and Revenue Recognition

Revenues from premium subscriptions are recognized ratably over the term of the service period, and as a result in the change in accounting standards, we recognize some streams of revenue immediately upon collection. 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, annually, or longer. 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 us that are not yet recognized as revenues. For revenues from applications developed by third-party application developers, other than Google, 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 applications that we remit to third-party application developers. App Market revenues which are derived from our own self developed applications and revenues from the sale of Google's G-Suite application are recognized on a gross basis. We recognize revenues from domain registration sales, third party applications in the App Market and Google's G-Suite application upon collection. See "—Application of Critical Accounting Policies and Estimates—Revenue Recognition."

We bill our premium subscriptions in advance through our registered users' credit or debit cards, wires, e-wallets and other forms of payment. We accept payments from our users primarily through credit and debit card transactions and alternative payment methods. Payment occurs after the credit card information provided 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,					
	2016	2017	2018	2016	2017	2018
North America	50 %	52 %	52 %			
Europe	27	26	27			
Latin America	9	9	8			
Asia and Others	14	13	13			
Total	100 %	100 %	100 %			

The percentage of revenues derived from outside of North America may increase over time as we continue to further penetrate internationally. Additional international adoption of our solutions and services is driven by our ability to offer our platform in local languages and offer local billing solutions. When penetrating new markets, we first focus on establishing an operational online billing system, if needed, prior to launching and investing in local marketing activities. We currently offer our platform in nineteen languages - English, French, Spanish, Portuguese, Italian, Russian, German, Japanese, Korean, Polish, Dutch, Turkish, Hindi, Norwegian, Swedish, Danish, Czech, Traditional Chinese and Thai 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 our cost of revenues to increase with the increase in the number of registered users and due to our sale of Google's G-Suite application, which will consequently increase our cost of revenue 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 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 approximately remain the same 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, 2018, 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 \$169 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 25% in 2016, 24% in 2017 and 23% in 2018 and thereafter. Pursuant to the current Beneficiary Enterprise program, the Company is entitled to a tax benefit. For more information regarding the tax benefits available to us as a Beneficiary Enterprise, see “Item 10.E. Taxation.” 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.

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,				2018	
	2016	% of	2017	% of	2018	% of
	Amount	Revenues	Amount	Revenues	Amount	Revenues
	(in USD thousands)					
Revenues	290,103	100.0	425,636	100.0	603,704	100
Cost of revenues	45,287	15.6	69,391	16.3	126,947	21.0
Gross profit	244,816	84.4	356,245	83.7	476,757	79.0
Operating expenses:						
Research and development	105,368	36.3	153,635	36.1	198,912	32.9
Selling and marketing	156,512	54.0	204,435	48.0	249,178	41.3
General and administrative	26,968	9.3	48,186	11.3	59,297	9.8
Total operating expenses	288,848	99.6	406,256	95.4	507,387	84.0
Operating loss	(44,032)	(15.2)	(50,011)	(11.7)	(30,630)	(5.0)
Financial income (expenses), net	247	0.1				