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Glassbox Ltd.

(the “Company”)

Quarterly report for the period ended March 31, 2022

Index

- Chapter A – report of the board of directors on the state of the company’s business**

- Chapter B – consolidated interim financial statements and separate financial information (Solo) as of March 31, 2022**

GLASSBOX LTD
REPORT OF THE BOARD OF DIRECTORS ON THE STATE OF
THE COMPANY'S BUSINESS
FOR THE NINE MONTHS ENDED MARCH 31, 2022.

The Board of Directors of Glassbox Ltd (the "**Company**") is hereby pleased to present the report of Board of Directors on the State of the Company's Business for the three months ended on March 31, 2022 (the "**Quarter**" or the "**Report Period**", respectively) and the financial results of the Company for the three months ended March 31, 2022 in accordance with the Securities Regulations (Periodic and Immediate Reports) – 1970 (the Reporting Regulations).

In this report below:

"Date of the Report " – March 31, 2022.

"Report Signature Date", "Report Date" or "Report Signature Day" – May 10, 2022.

The review presented below is limited in scope and relates to events and changes that occurred in the Company's business situation during the reporting period, the impact of which is material and should be read in conjunction with the financial statements and the Board of Directors' report for the year ended December 31, 2021 which were attached to the Company's periodic report from March 16, 2022 (reference number: 2022-01-026031) (the "Periodic Report"), which are presented in this report by way of reference, and with the Periodic Report itself.

A Explanations of the Board of Directors to the State of the Company's Business, the Results of Its Activity, Its Capital and Cashflows

1. The Company's Activity

1.1. Description of the Company and Its Business Environment

The Company was incorporated on November 25, 2010, as a private company limited by shares incorporated in the State of Israel under the name "Clarisite Ltd."; On April 14, 2016, the Company changed its name to "Glassbox Digital Ltd.", and on May 8, 2016, the Company changed its name to its current name. On June 10, 2021, the Company's shares were listed for trade on the Tel Aviv Stock Exchange Ltd. ("**TASE**") by virtue of an initial public offering prospectus, secondary sale prospectus and the Company's shelf prospectus dated June 4, 2021 (reference no: 2021-01-035284), as amended on June 8, 2021 (reference no: 2021-01-098037) (the "**Prospectus**", "**Prospectus Date**" and "**IPO**", respectively), and the Company became a public company. On August 5, 2021, the Company's shares were added to the Tel Aviv - Elite Index.

As of the report date, the Company operates, including through the Group Companies (as defined below), in one area of activity – providing software-based services (SaaS, Software as a Service) for analysis of browsing on Internet websites and mobile apps (“**Digital Services**” and the “**Area of Activity**”, respectively). For more information regarding the Area of Activity of the Company and the development of its business, see the description of the corporation’s business report for 2021, which was attached as Chapter 1 to the Periodic Report (“**Report on Description of the Corporation’s Business**”).

As of the date of the report, the Company has two subsidiaries (wholly owned) - Glassbox US INC, a private company incorporated in the United States, and Glassbox Digital UK Ltd., a private company incorporated in England and Wales, and a sub-subsidiary - SessionCam Ltd. - a private company incorporated in England and Wales, wholly owned by Glassbox Digital UK Ltd (jointly: the “**Group Companies**”, and together with the Company: the “**Group**”). For more information about the Company’s activity, a description of the business environment and its effect on its activity, see the Description of the corporation’s business report.

1.2. Developments in the Company's business during the reported period

During the reported period, positive developments were recorded in the Company's business, including the Company’s¹ contractual engagement with a group customer, who is one of the ten largest banking corporations in the US (the “**Customer**”), as an amendment to the usage license agreement that was signed between the Company and the Customer for the renewal and expansion of the said license for a period of three (3) years in a scope of approximately \$ 9.7 million (for more information see section 14.1 below); an ARR balance of approximately \$ 45.5 million as of the report date, which reflects an increase of 30% in relation to the ARR balance as of March 31, 2021 (for more details, including on the calculation method and the factors that make up the change to the net addition to ARR, see section 7 below); The net addition to ARR in the Reporting Period compared to the corresponding period last year decreased by approximately 34%; a record rate of 96% in gross customer retention (for further details see section 7 below); strong momentum among medium-sized customers (annual revenues below \$ 250,000), recruiting 15 new customers from various industries, and in various geographical areas and continued momentum in mobile apps with the increase in the number of new customers (for further details see section 7 below); Focusing on increasing the volume of cloud customers and taking initiatives to reduce cloud costs, among other things by marketing the Group’s systems in a multi tenancy environment, which enables efficiency and cost structure improvement for medium and small customers (for more details on the multi tenancy environment, see section 1.1.2 to the Report on Description of the Corporation’s Business); Product Lead – continued investment in value creation for the Company's customers and the release of an initial "beta" version of the Voice of the Silent/Customer (VOS/VoC) module (for more details on the said module, see section 1.18 of the Report on

¹ Through Glassbox USA.

Description of the Corporation's Business); Continued investment in building infrastructure that will enable a transition to positive cash flow and profitability; winning one hundred and fifty (150) G2 awards in the report period until the report date in all nine (9) categories of Digital Customer Experience², inclusion in the list of Highest Satisfaction, Marketing & Digital Advertising, Development and Content Management Products, in the framework of 2022 Best Software Awards of G2³ and first place in the number of reviews and review score and formal recognition as a Product Analytics Vendor on the Gartner⁴ website; Organization of a physical global customer conference in Boston USA ("Digital World") with the participation of experts from among customers, potential customers and partners (such as: iHeartMedia, Western Union, Danone, NetApp, AWS, Blue Shield and more), for the first time since the outbreak of the Coronavirus.

The Company's estimates regarding the Continued investment in building infrastructure that will enable transition to profitability and positive cash flow as set forth above constitute forward-looking information, as defined in the Securities Law, 5728-1968 ("Securities Law"). These estimates are based, inter alia, on estimates of the Company's management, based on its past experience, on the estimate of the markets in which the Company is active, on the actions taken by the Company and their effects on its results. These estimates may not materialize, or materialize in a way that differs from what was estimated, even substantially so, as a result of factors outside the Company's control, including changes to future demand for systems (as defined in the description of the corporation's business report) and competition in the market, technological developments in the markets where the Company is active, etc., and the materialization of any of the risk factors set forth in section 1.36 of the Report on Description of the Corporation's Business.

² Which includes the following categories: Session Replay, Digital Analytics, Mobile App Optimization, Heatmap Tools, Digital Experience Platforms (DXP), Mobile Analytics, Customer Journey Analytics, Product Analytics and Mobile App Analytics.

³ List of marketing and digital advertising, development and content management products with the highest satisfaction out of 100 products, on the basis of verified customer reviews.

⁴ The foregoing is based on the survey at: <https://www.gartner.com/reviews/market/web-product-and-digital-experience-analytics/compare/product/contentsquare-digital-experience-analytics-platform-vs-glassbox-vs-quantum-metric>.

2. The Financial Position

Below is a summary of the financial position (USD thousands):

| Item | March 31 | | December 31, 2021 | Explanations of the Board of Directors |
|-------------------------------|----------|--------|-------------------|--|
| | 2022 | 2021 | | |
| Current assets | 65,208 | 24,363 | 62,895 | The increase in current assets as of March 31, 2022 compared to current assets as of December 31, 2021 is immaterial. |
| Noncurrent assets | 32,085 | 32,290 | 32,788 | The decrease in noncurrent assets as of March 31, 2022 compared to noncurrent assets as of December 31, 2021 is immaterial. |
| Current liabilities | 37,159 | 18,679 | 30,513 | The increase in current liabilities as of March 31, 2022 compared to current liabilities as of December 31, 2021 derived from short term deferred revenue and from an increase in the accounts payable and credit balances with respect to wage obligations and provision for tax. |
| Noncurrent liabilities | 5,133 | 11,678 | 5,185 | The decrease in noncurrent liabilities as of March 31, 2022 compared to noncurrent liabilities as of December 31, 2021 is immaterial. |
| Shareholders' equity | 55,001 | 26,296 | 59,985 | The decrease in shareholders' equity as of March 31, 2022 compared to December 31, 2021 was mainly due to the net loss in the reported period. |

3. Results of the Activity

Below are data of the results of the activity (USD thousands):

| Item | Three months ended March 31 | | Year ended December 31, 2021 | Explanations of the Board of Directors |
|-----------------|-----------------------------|-------|------------------------------|--|
| | 2022 | 2021 | | |
| Revenues | 12,697 | 7,757 | 36,990 | The increase in revenue in the first quarter of 2022 compared to the corresponding period in 2021 was due to an increase in sales of on-premise licenses and related services of 117%, partly due to the one-time effect of the amendment to the license agreement signed between the Company and the customer (for more details see section 14.1 below), And an increase of 41% in Cloud license sales. The rate of non-recurring income in 2022 was about 4% of total income compared to 7% of total income in 2021; |

| | | | | |
|--|-------|-------|--------|--|
| Cost of sales | 3,726 | 3,022 | 12,465 | The increase in cost of sales in the first quarter of 2022 relative to the corresponding period in 2021 was mainly due to an increase in servers and cloud services resulting from an increase in sales; |
| Gross profit | 8,971 | 4,735 | 24,525 | The rate of gross profit in the first quarter of 2022 was 70.7%, compared to 61.0% in the first quarter of 2021. The increase in the rate of gross profit in the first quarter of 2022 relative to the corresponding period in 2021 is due to an increase in revenue and the one-time effect of the amendment. A license of use which is signed between the Company and the customer (for further details see section 14.1 below); |
| Research and development expenses | 5,363 | 3,479 | 18,395 | The increase in research and development expenses in the first quarter of 2022 compared to the corresponding period in 2021 was due to an increase in wages and related expenses due to an increase in the number of development workers as well as an increase in expenses in respect of employee options; |
| Selling and marketing expenses | 8,189 | 5,234 | 25,460 | The increase in Selling and marketing expenses in the first quarter of 2022 compared to the corresponding period in 2021 was due to an increase in wages and related expenses due to an increase in the number of Selling and marketing as well as an increase in expenses in respect of employee options; |
| Administrative and general expenses | 3,061 | 1,803 | 9,800 | The increase in general and administrative expenses in the first quarter of 2022 compared to the corresponding period in 2021 was due to an increase in salaries and related expenses due to an increase in the number of employees as well as an increase in expenses in respect of employee options; |
| Other expenses | - | - | 3,055 | The Company had no other expenses in the first quarter of 2022; |
| Operating loss | 7,642 | 5,781 | 32,185 | The increase in operating loss in the first quarter of 2022 compared to the corresponding period in 2021 was mainly due to an increase in research and development expenses, an increase in sales and marketing expenses and an increase in administrative and general expenses which was partially offset by an increase in gross profit; |
| Finance expenses | 823 | 269 | 1,314 | The increase in financing expenses in the first quarter of 2022 relative to the corresponding period in 2021 was due to exchange rate differences in respect of revaluation of balance sheets; |
| Finance income | (501) | (406) | (196) | The increase in financing income in the first quarter of 2022 compared to the corresponding period in 2021 was due to an increase in hedging transactions offset by a decrease in income from exchange rate differences in respect of revaluation of balance sheet balances; |
| Finance expenses (income), net | 322 | (137) | 1,118 | The increase in net financing expenses in the first quarter of 2022 relative to the corresponding period in 2021 was due to an increase in financing expenses, as detailed above; |
| Loss before income taxes | 7,964 | 5,644 | 33,303 | The increase in the pre-tax loss on income in the first quarter of 2022 relative to the corresponding period in 2021 was due to an increase in the operating loss; |
| Income taxes, incomes | (3) | (208) | (269) | The decrease in tax revenues in the first quarter of 2022 compared to the corresponding period in 2021 is due to an increase in |

| | | | | |
|-----------------------------------|-------|-------|--------|--|
| | | | | current tax expenses that is partially offset by an increase in deferred tax revenues; |
| Loss | 7,961 | 5,436 | 33,034 | The increase in loss in the first quarter of 2022 relative to the corresponding period in 2021 was due to an increase in loss before income taxes; |
| Other comprehensive income | 282 | 28 | 103 | Other comprehensive income is due to currency translation differences in SessionCam reports and Glassbox UK, which are denominated in pounds; |
| Comprehensive loss | 7,679 | 5,408 | 32,931 | The increase in the total loss in the quarter of 2022 compared to the corresponding period was due to an increase in the loss; |

4. Liquidity

Below are data about liquidity USD thousands):

| Item | Three months ended September 30 | | Year ended December 31 2021 | Explanations of the Board of Directors |
|--|------------------------------------|----------|-----------------------------------|--|
| | 2022 | 2021 | | |
| Cash flow from operating activities | (330) | (2,369) | (17,803) | The increase in net cash flow used in current operations in the first quarter of 2022 relative to the corresponding period in 2021 was due to an increase in deferred income, an increase in entitlements and credit balances offset an increase in receivables and debit balances and an increase in loss for the period; The cash flow deficit from operating activities is due to continued investment in research and development and marketing and sales for the purpose of continuing the Company's growth. For further details in connection with the Company's research and development activities, see section 1.24 of the Report on Description of the Corporation's Business; |
| Cash flow from investing activities | 16,608 | (8,639) | (42,538) | The increase in net cash flow used for investing activities in the first quarter of 2022 relative to the corresponding period in 2021 was mainly due to a change in short-term deposit balances; |
| Cash flow from finance activities | (8) | 92 | 53,391 | The decrease in cash flow from financing activities in the first quarter of 2022 compared to the corresponding period in 2021 was due to a decrease in receipts from the exercise of stock options; |
| Increase (decrease) in cash and cash equivalents | 16,270 | (10,916) | (6,950) | The increase in total cash flow in the first quarter of 2022 compared to the corresponding period in 2021 was mainly due to an increase in investment activity as well as an increase in cash flow from operating activities; |
| Exchange rate differences in respect of balances of cash and cash equivalents | (35) | 33 | (14) | Exchange rate differences in respect of balances of cash and cash equivalents deriving from translation differentials by the nature of SessionCam and Glassbox UK reports that are set forth in GBP; |

| | | | | |
|--|--------|--------|--------|--|
| Balance of cash and cash equivalents at the beginning of the period | 12,123 | 19,087 | 19,087 | |
| Balance of cash and cash equivalents at the end of the period | 28,358 | 8,204 | 12,123 | Cash balances as of March 31, 2022 and 2021 do not include short-term deposits in the amount of USD 26,920 and USD 10,600, respectively; |

It should be noted that in the three-month period ended March 31, 2022, the Company has negative cash flow from operating activities in the amount of \$ 330,000, compared to the expected negative cash flow from operating activities for the said period of between \$ 500,000 and \$ 1,000,000 as specified in the Company's supplementary report dated April 14, 2022), due in part to: (a) Higher-than-expected cash flow classified for the purchase of fixed assets; (b) Lower-than-expected cash flow classified as receipts from the exercising of stock options; and (c) Higher-than-expected cash flow classified for repayment of lease liabilities⁵.

5. **Financing sources**

As of the report date, the Company is financing its activity mainly through raising capital and through taking on credit facilities. For more information see sections 1.2 and 1.29 of the description of the corporation's business report, respectively.

As of the report date, the Company estimates that in the coming year it will not be required to raise additional financing sources beyond the proceeds of the initial public offering performed pursuant to the prospectus for purpose of reaching its targets and for purpose of covering its current operating costs.

In the Company's estimate, it has high accessibility to financing sources. Among other things, in light of its financial resilience, stability of its core activity and the extensive ties it created with investment funds all over the world, as well as access to the Israeli capital market, all considering the potential implications of a renewed spread of the Coronavirus on the availability of the credit sources in Israeli and globally, as set forth in section 9 below.

The Company's estimates regarding the need to raise additional financing sources and regarding its access to financing sources as set forth above constitute forward-looking information, as defined in the Securities Law. These estimates are based, inter alia, on estimates of the Company's management, based on its past experience, on the estimate of the markets in which the Company is active, on the Company having financing channels, and changes to the credit market and

⁵ Reference number: 2022-01-039822, the information according to which is presented in this report by way of reference.

interest environment. These estimates may not materialize, or materialize in a way that differs from what was estimated, even substantially so, as a result of factors outside the Company's control, including changes to future demand for systems and competition in the market, technological developments in the markets where the Company is active, etc., and the materialization of any of the risk factors set forth in section 1.36 of the Report on Description of the Corporation's Business.

6. Adjusted profit or loss Statement

6.1. For the purpose of comparing the Company's financial results and presenting the Company's operating and financial performance, the following is a breakdown of profit (loss) before income taxes for the periods of three months ended March 31, 2022 (in US dollars thousands) excluding the effects of several items as follows:

| Item | Three months ended March 31, 2022 (in US dollars thousands) | | | | | |
|-------------------------------------|---|----------------------------------|---|---|---|-----------------------------------|
| | Pro forma profit and loss statement according to generally accepted accounting principles | Adjustments for employee options | Exclusion of expenses for turning the Company into a public company | Exclusion of companies acquisition expenses | Exclusion of excess cost amortizations from the purchase of companies | Adjusted profit or loss Statement |
| Revenues | 12,697 | - | - | - | - | 12,697 |
| Cost of revenues | 3,726 | (111) | - | - | - | 3,615 |
| Gross profit | 8,971 | 111 | - | - | - | 9,082 |
| Research and development expenses | 5,363 | (809) | - | - | (164) | 4,390 |
| Selling and marketing expenses | 8,189 | (722) | - | - | (307) | 7,160 |
| Administrative and general expenses | 3,061 | (883) | - | - | - | 2,178 |
| Other expenses | - | - | - | - | - | - |
| Total operating | 16,613 | (2,414) | - | - | (471) | 13,728 |

| | | | | | | |
|---------------------------------------|-------|---------|---|---|-------|-------|
| expenses | | | | | | |
| Operating loss | 7,642 | (2,525) | - | - | (471) | 4,646 |
| Finance expenses | 823 | - | - | - | (281) | 542 |
| Finance income | (501) | - | - | - | - | (501) |
| Finance expenses (income), net | 322 | - | - | - | (281) | 41 |
| Loss before taxes on income | 7,964 | (2525) | - | - | (752) | 4,687 |

Below are details on the profit (loss) before taxes on income

6.2. For the three months period ended March 31, 2021 (in USD thousands), excluding the effects of a few sections as follows:

| Item | Three months ended March 31, 2021 | | | | | |
|--|--|---|--|--|--|--|
| | (US dollars in thousands) | | | | | |
| | Pro forma profit and loss statement according to generally accepted accounting principles | Adjustments for employee options | Exclusion of expenses for turning the Company into a public company | Exclusion of companies acquisition expenses | Exclusion of excess cost amortizations from the purchase of companies | Adjusted profit or loss Statement |
| Revenues | 7,757 | - | - | - | 743 | 8,500 |
| Cost of revenues | 3,022 | (20) | - | - | - | 3,002 |
| Gross profit | 4,735 | 20 | - | - | 743 | 5,498 |
| Research and development expenses | 3,479 | (336) | - | - | (100) | 3,043 |
| Selling and marketing expenses | 5,234 | (279) | - | - | (290) | 4,665 |
| Administrative and general | 1,803 | (576) | (217) | - | - | 1,010 |

| | | | | | | |
|---------------------------------------|--------|---------|-------|---|---------|-------|
| expenses | | | | | | |
| Other expenses | - | - | - | - | - | - |
| Total operating expenses | 10,516 | (1,191) | (217) | - | (390) | 8,718 |
| Operating loss (profit) | 5,781 | (1,211) | (217) | - | (1,133) | 3,220 |
| Finance expenses | 269 | - | - | - | (249) | 20 |
| Finance income | (406) | - | - | - | - | (406) |
| Finance expenses (income), net | (137) | - | - | - | (249) | (386) |
| Loss before taxes on income | 5,644 | (1,211) | (217) | - | (1,382) | 2,834 |

6.3. The following is a breakdown of income (loss) before taxes on income for the periods of three months and nine months ended September 30, 2020 including the effect of the acquisition of SessionCam (in thousands of dollars) (assuming the acquisition was completed on January 1, 2019), excluding the effects of several items as follows:

| Item | Year ended December 31, 2021 (in US dollars thousands) | | | | | |
|--|---|----------------------------------|---|---|---|-----------------------------------|
| | Profit and loss statement according to generally accepted accounting principles | Adjustments for employee options | Exclusion of expenses for turning the Company into a public company | Exclusion of companies acquisition expenses | Exclusion of excess cost amortizations from the purchase of companies | Adjusted profit or loss Statement |
| Revenues | 36,990 | - | - | - | 1,428 | 38,418 |
| Cost of revenues | 12,465 | (130) | - | - | - | 12,335 |
| Gross profit | 24,525 | 130 | - | - | 1,428 | 26,083 |
| Research and development expenses | 18,395 | (2,581) | - | - | (478) | 15,336 |
| Selling and | 25,460 | (3,625) | - | - | (1,178) | 20,657 |

| | | | | | | |
|--|--------|---------|---------|-------|---------|--------|
| marketing expenses | | | | | | |
| Administrative and general expenses | 9,800 | (2,271) | (1,128) | (109) | - | 6,292 |
| Other expenses | 3,055 | - | - | - | (3,055) | - |
| Total operating expenses | 56,710 | (8,477) | (1,128) | (109) | (4,711) | 42,285 |
| Operating loss (profit) | 32,185 | (8,607) | (1,128) | (109) | (6,139) | 16,202 |
| Finance expenses | 1,314 | - | - | - | (685) | 629 |
| Finance income | (196) | - | - | - | - | (196) |
| Finance expenses (income), net | 1,118 | - | - | - | (685) | 433 |
| Loss before taxes on income | 33,303 | (8,607) | (1,128) | (109) | (6,824) | 16,635 |

6.4. The following is an adjusted profit (loss) comparison before income taxes, as set forth in sections 5.1, 5.2 and 5.3 above, for the period of three months ended March 31, 2021 and March 31, 2022, and for the year ended December 31, 2021 (in US dollars thousands), excluding the effects of a number of items as follows:

| Item | Three months ended March 31 | | Year ended December 31 2021 | Explanations of the Board of Directors |
|----------------------|-----------------------------|-------|-----------------------------|---|
| | 2022 | 2021 | | |
| Revenues | 12,697 | 8,500 | 38,418 | The increase in revenue in the first quarter of 2022 compared to the corresponding period in 2021 was due to an increase in sales of on-premise licenses and related services of 117%, partly due to the one-time effect of the amendment to the license agreement signed between the Company and the customer (for more details see section 14.1 below), as well as a 22% increase in Cloud license sales; The rate of non-recurring income in 2022 was about 4% of total income compared to 7% of total income in 2021; |
| Cost of sales | 3,615 | 3,002 | 12,335 | The increase in cost of sales in the first quarter of 2022 relative to the corresponding period in 2021 was mainly due to an increase in servers and cloud services resulting from an increase in sales; |

| | | | | |
|--|-------|-------|--------|--|
| Gross profit | 9,082 | 5,498 | 26,083 | The gross profit margin in the first quarter of 2022 was 71.5% compared to 64.7% in the first quarter of 2021. The increase in the gross profit margin in the first quarter of 2022 and in the reporting period relative to the corresponding period in 2021 is due to an increase in revenue and the one-time effect of the license agreement signed between the Company and the customer (for further details see section 14.1 below); |
| Research and development expenses | 4,390 | 3,043 | 15,336 | The increase in research and development expenses in the first quarter of 2022 relative to the corresponding period in 2021 was due to an increase in wages and related expenses due to an increase in the number of development workers; |
| Selling and marketing expenses | 7,160 | 4,665 | 20,657 | The increase in sales and marketing expenses in the first quarter of 2022 compared to the corresponding period in 2021 was due to an increase in salaries and related expenses due to an increase in the number of sales and marketing employees as well as an increase in advertising and marketing expenses of the Company; |
| Administrative and general expenses | 2,178 | 1,010 | 6,292 | The increase in administrative and general expenses in the first quarter of 2022 compared to the corresponding period in 2021 was due to an increase in salaries and related expenses due to an increase in the number of employees; |
| Operating loss | 4,646 | 3,220 | 16,202 | The increase in operating loss in the first quarter of 2022 compared to the corresponding period in 2021 was mainly due to an increase in research and development expenses, an increase in sales and marketing expenses and an increase in administrative and general expenses which was partially offset by an increase in gross profit; |
| Finance expenses | 542 | 20 | 629 | The increase in financing expenses in the first quarter of 2022 relative to the corresponding period in 2021 was due to exchange rate differences in respect of revaluation of balance sheets; |
| Finance income | (501) | (406) | (196) | The increase in financing income in the first quarter of 2022 relative to the corresponding period in 2021 was due to an increase in income from hedging transactions offsetting a decrease in income from exchange rate differences in respect of revaluation of balance sheet balances; |
| Finance (income), expenses net | 41 | (386) | 433 | The increase in net financing expenses in the first quarter of 2022 relative to the corresponding period in 2021 was due to an increase in financing expenses, as detailed above; |
| Loss before income taxes | 4,687 | 2,834 | 16,635 | The increase in the pre-tax loss on income in the first quarter of 2022 relative to the corresponding period in 2021 was due to an increase in the operating loss; |

7. **Key Performance and Financial Indicators (KPIs)**

The following is a breakdown of financial and operating metrics (KPIs) that the company uses to measure its performance as is customary in SaaS companies (SaaS):

Annual Recurring Revenues trend

As a SAAS company, the Company measures its growth in terms of the increase in annual recurring revenues (ARR):

ARR calculation method: The ARR index reflects the Company's annual recurring revenues from licensing and/or maintenance services, in annual terms and does not include one-off revenues, such as professional services. The ARR index is calculated on the basis of all the Company's customers, which at the time of calculating the ARR the contract with them is valid; and the expiration date of the license/maintenance services occurs after the ARR calculation date. The ARR index is calculated as follows: (1) the Company monitors all customers with valid contracts as of the ARR calculation date, (2) out of such contracts, the total revenues from professional services and/or other one-off revenues is deducted so that the resulting ARR amount is from subscription fees, (3) the amount of ARR from normalized subscription fees to annual terms if the contract period is other than a year; Contracts that are not denominated in dollars are translated into dollars based on the exchange rate at the time the contract is signed.

Below is the Group's ARR breakdown, by quarter, as of the report date, in –2020-2022⁵

The ARR calculation includes both customers who have assimilated the product in the customer's data base (on-premises) and cloud customers only (i.e., customers who assimilate the Company's products by cloud).

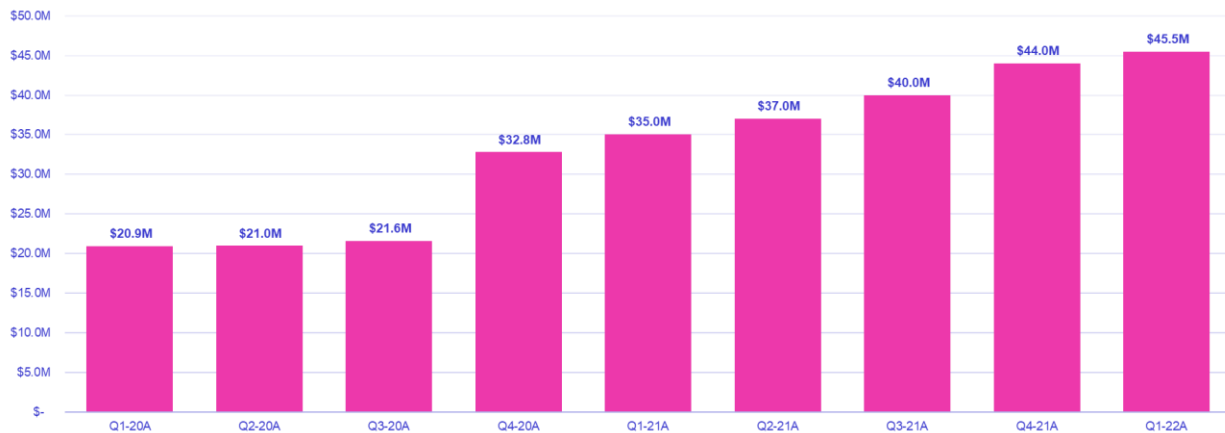
As of the report date, the ARR balance increased to \$ 45.5 million compared to \$ 44 million as of the end of 2021. In addition, the ARR balance of the Company as of the end of Q1 2022 is approximately 30% greater compared to the ARR balance of the Company as of the end of Q1 2021. The net addition to ARR in the three months period ended March 31, 2022, decreased by approximately 34% compared to the net addition to ARR in the three months period ended March 31, 2021, due to the following:

- In the three months period ended March 31, 2022, there was an increase of approximately 22% in ARR deriving from new customers compared to the three months period ended March 31, 2021;

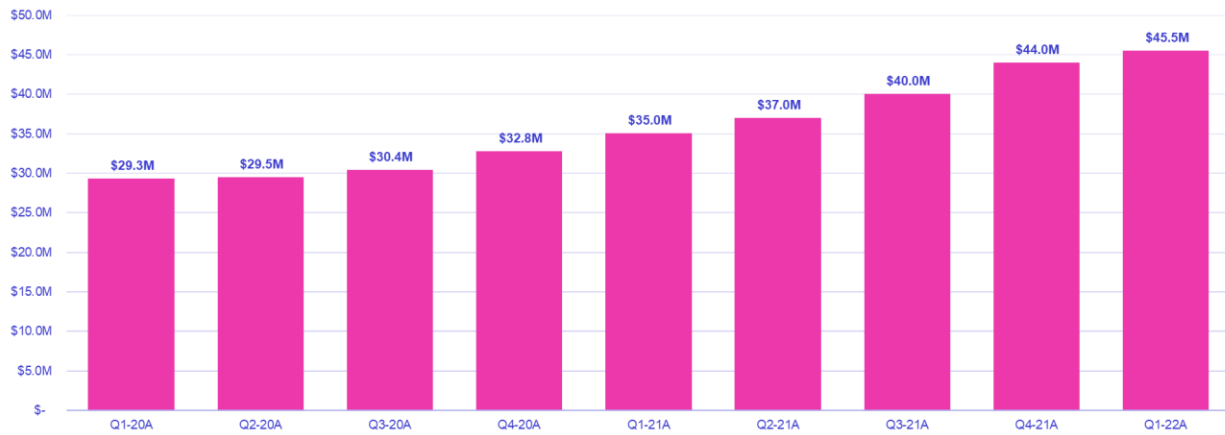
⁵ It should be indicated that the data presented above for the fourth quarter of 2020 and thereafter gross up the data of SessionCam. For details about the SessionCam purchase agreement, see section 1.1.3 in the description of the corporation's business report.

- In the three months period ended March 31, 2022, there was a decrease of approximately 65% in ARR deriving from expanded activity with current customers compared to the three months period ended March 31, 2021; and –
- In the three months period ended March 31, 2022, the decrease in ARR deriving from the termination or reduction of activity with current customers decreased by approximately 61% compared to the three months period ended March 31, 2021 (i.e. there was an improvement in the customer retention rate that was manifested in a decrease of approximately 61% in the ARR amount that the Company lost from current customers in the three months ended March 31, 2022, compared to the corresponding period last year).

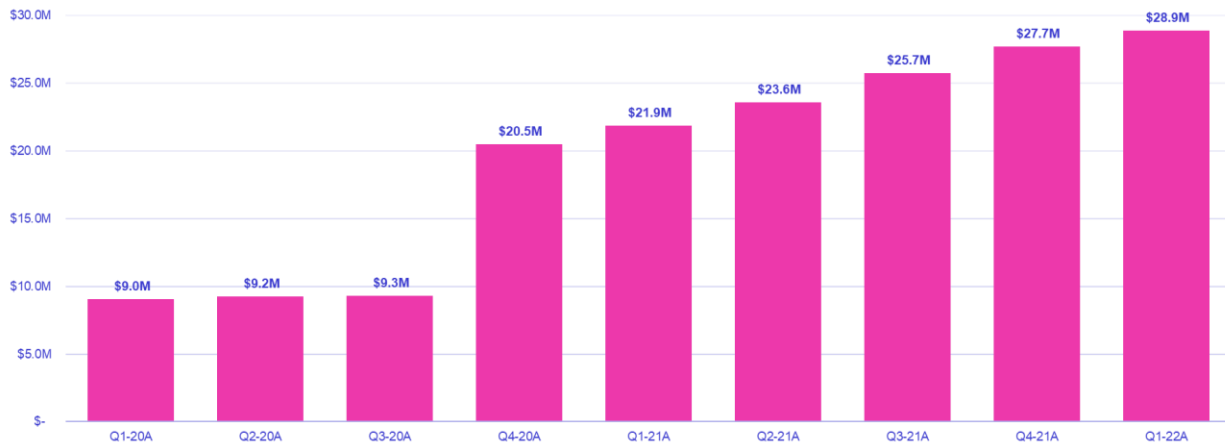
In addition, in the reported period 15 new customers joined the Company, and the ARR from cloud customers increased by 42% compared to the corresponding period last year.



Below is the Group's ARR breakdown, by quarter, on proforma basis as of the end of every quarter, in 2020 - 2022⁷



Below is the ARR breakdown from the Group's cloud customers, by quarter, as of the end of every quarter in 2020-2022⁸



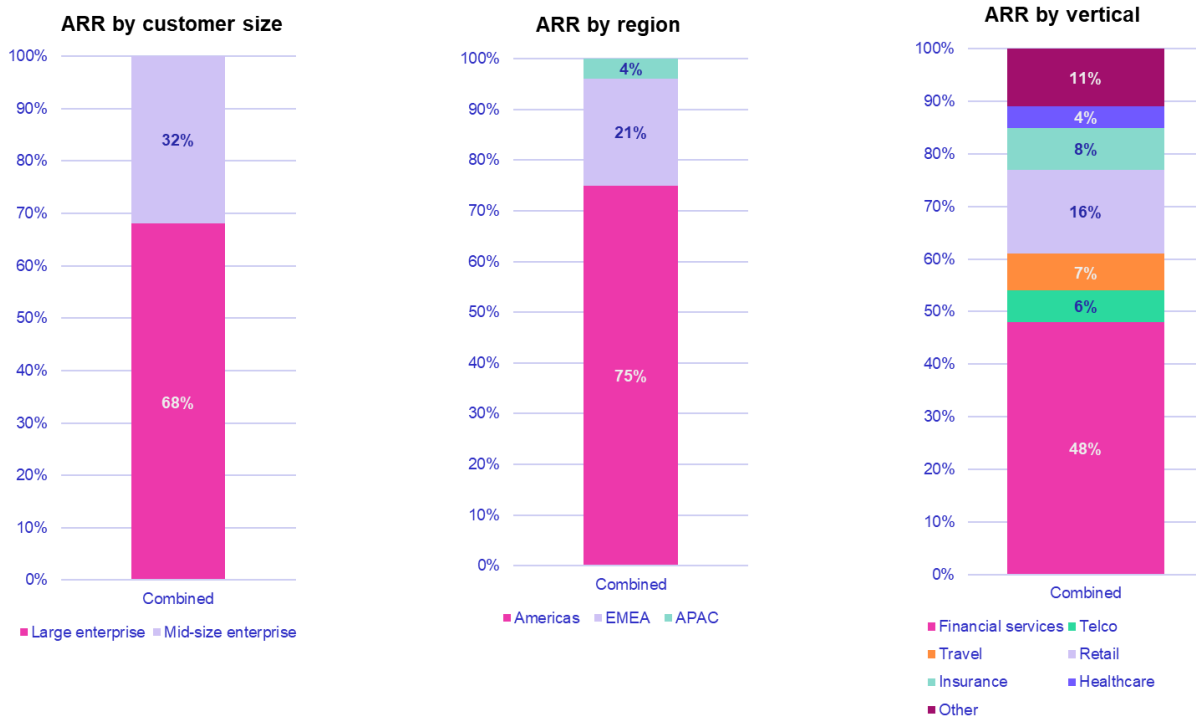
⁷ it should be indicated that the data presented above regarding Q4 2020 onwards gross up the data of SessionCam.

⁸ it should be indicated that the data presented above regarding Q4 2020 onwards gross up the data of SessionCam.

ARR Breakdown

As of the date of the report and the date of the report, the Company is operating, through the Group Companies, to sell licenses for the use of Enterprise and Optimize systems, as well as the SC system (to a limited extent)⁶. Therefore, as of the date of the report and the date of the report, the Company no longer makes a distinction between the activity of Company’s, Glassbox USA and Glassbox England and the activity of SessionCam, but only segment between large and medium and small customer data. The following chart describes the ARR balance of the Group as of March 31, 2022 with the segmentations relevant to its activity:

ARR by Region, customer size and vertical



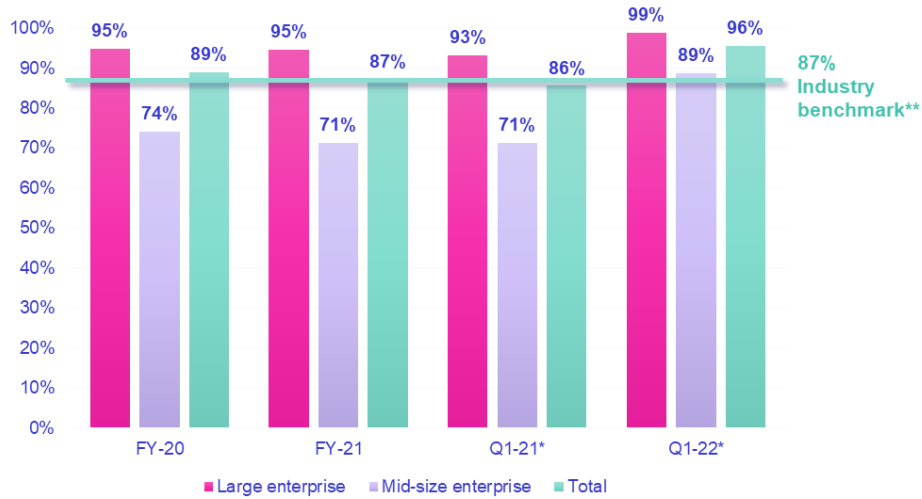
Customer Retention Rates

Another operations metric is the retention rate of existing customers (USD Retention Rate) based on ARR which is calculated separately with consideration of customers who have left or reduced the gross retention of revenues (Gross retention) or of customers who have left or reduced or increased net retention of revenues (Net retention) in a definite time period. The difference between Gross Retention and Net retention reflects the increase in recurring income from customers from the increased use of the Company's products.

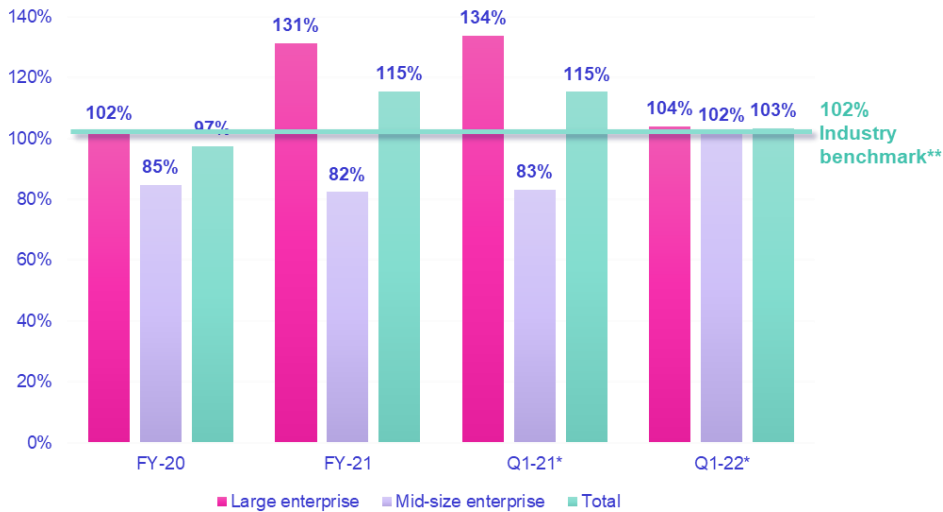
⁶ For more information about Enterprise System, SC System and Optimize System, see Sections 1.16.1, 1.16.2 and 1.18 of the Report on Description of the Corporation’s Business, respectively.

The following is a breakdown of customer retention rates, divided into large customers (annual revenues over \$ 250,000) and medium-sized customers (annual revenues below \$ 250,000), as of December 31, 2020 and 2021, and March 31, 2021 and 2022, respectively¹⁰:

GROSS RETENTION PER CUSTOMER SIZE



NET RETENTION PER CUSTOMER SIZE



* Annualized retention

** Based on KeyBanc 2021 SaaS survey

¹⁰ It should be noted that the data presented above in relation to the reported period were normalized to annual terms

8. **Material change or innovation in the corporation's business which occurred in the corporation's business in the reported period and thereafter**

8.1. **Section 1.2 in the Report on Description of the Corporation's Business – investments in the Company's capital and transactions in its shares.**

8.1.1. On February 7, 2022, the Company's Board of Directors approved a non-material private offering to three offerees who are consultants and service providers of the Company and SessionCam (collectively: the "**Offerees**") in exchange for consulting and other services provided by the Offerees to the Company in various areas, of a total of 16,160 options, non-transferable, and exercisable for up to 16,160 ordinary shares of NIS 0.01 par value each of the Company. For further details, see immediate report of the Company dated February 8, 2022 (reference no: 2022-01-014325), the information according to which is presented in this report by way of reference.

8.1.2. On February 27, 2022, the Company published a prospectus for offering securities to employees, by virtue of which the Company would be entitled to offer employees and officers of the Company and affiliated companies⁷ up to 440,000 non-marketable warrants, and up to 200,000 unlisted restricted share units (RSUs), which would be exercisable into up to 640,000 ordinary shares of the Company par value ILS 0.01 each (the "**Prospectus**"). For more information about the Prospectus, see the Company's immediate report dated February 27, 2022 (reference no: 2022-01-019527), the information of which is presented in this report by way of reference.

8.1.3. On March 15, 2022, the Company's board of directors approved a non-substantial private allocation to an offeree that is a consultant and service provider of Glassbox UK (the "**Offeree**") in consideration for consulting and other services granted by the Offeree to Glassbox UK in various areas, in total of 5,000 non-marketable warrants, exercisable into up to 5,000 ordinary shares of the Company par value ILS 0.01 each. For more information, see the Company's immediate report dated March 16, 2022 (reference no: 2022-01-026049), the information of which is presented in this report by way of reference.

8.2. **Section 1.29.2 in the Report on Description of the Corporation's Business – engagement in a credit line agreement.**

Further to the stated in section 1.29.2 of the Corporate Business Description Report (in this paragraph: the "**Section**"), on May 10, 2022, the Company's Board of Directors approved the engagement of the Company and Glassbox USA's (together: the "**Borrowers**") in the amendment to the credit line agreement with Silicon Valley Bank dated March 8, 2021 for the provision of external financing in the amount of up to \$ 8 million (the "**Amendment**"). In accordance with the

⁷ Subsidiaries or second-tier subsidiaries of the Company, controlled by the Company.

Amendment, the financial covenant for maintaining a minimum level of recurring income of the Group (as specified in the Section) has been deleted, and the Borrowers will be required to maintain a ratio of 1.25 between the current assets of the Borrowers and their current liabilities less deferred income only. For further details, see the immediate report of the Company, which is published at the same time as this report (the “**Immediate Report**”).

8.3. Regulation 21 of the report Additional details about the corporation – Remuneration for Interested Parties and Senior Office Holders

Further to Regulation 21 of the Additional Details Report, which is attached as Chapter D to the Periodic Report (the “**Additional Details Report**”), on May 2 and 10, 2022, the Remuneration Committee and the Company’s Board of Directors approved, respectively, the terms of office and employment of Mr. Yaron Morgenstern, who serves as a Director and the CEO of the Company, and of Mr. Yaron Guetta, who serves as a Director and the Chief Technology Officer of the Company, subject to the approval of the General Meeting of the Company’s shareholders. For more details, see the Immediate Report.

9. Effects of the COVID-19 Epidemic on the Company’s Activity

during Q1 of 2020, the COVID-19 virus epidemic (“**Coronavirus**” or “**Virus**” or “**COVID-19**”) broke out around the world and spread to many countries, including Israel. The epidemic has extensive macro- and micro-economic consequences, which naturally have a material effect on the Group’s activities. Among other things, the epidemic caused disruptions in supply chains, a decrease in the volume of global transportation, movement and employment restrictions imposed by the Israeli government and many other governments globally, and to decline in the value of financial assets and goods in all markets. With the purpose of dealing with the spread of the virus, many countries, including Israel, instituted various measures that included, among others, significant reduction in business and leisure activity, quarantine of persons suspected of contracting the Virus, minimization of public transportation, complete shutdown of the educational system, an order to not access workplaces not specified as essential workplaces, cancellation of flights and closure of borders, ban on gatherings, and other restrictions. These measures caused a material moderation of business activity of the Israeli economy and also adversely affected global economic activity.

In addition to the statements in section 10 of the Company’s 2020 board report that was attached to the Prospectus (“**2020 Board Report**”) and section 9 of the 2021 board report on the Company’s state of affairs that was attached as chapter B to the periodic report (“**2021 Board Report**”),⁸ during the reported period, and in light of the steady decrease in morbidity, the vast majority of such restrictions was lifted and an almost complete return of activity in the Israeli economy was recorded. It is indicated

⁸ The information of which is presented in this report by way of reference.

that despite the positive effect of the third vaccination and the fourth vaccination for at-risk populations (“booster” shots) on the amount of patients in Israel and the decrease in the number of serious patients at this stage it is not possible to assess the continued spread of the virus and among others the efficacy of vaccinations against other potential variants which began or may begin to spread worldwide and in Israel and whether the crisis is nearing its end in the upcoming quarters or that it may exacerbate for a longer term.

It should be noted that the global changes during the Corona period had, and still have, positive effects on the Company's operations, among other things due to the fact that many businesses' reliance on digital channels increased, leading to growth in the Company's activity. For details regarding the positive effects of the global changes during the corona period see section 10 of the 2020 Board Report.

For further details regarding the risks associated with the spread of the corona epidemic, see Note 1B to the Company's financial statements attached to this report.

The Company's estimates regarding the possible consequences of the spread of the coronavirus including the consequences of the spread of additional mutations of the virus, on the Company's activities as described above are Forward-Looking Information, as defined in the Securities Law, the realization of which is uncertain and beyond the Company's control. This information is mainly based on public information about the coronavirus epidemic as it existed at the time of publication of this report (and which frequently changes) and on the Company's assessments, based, among other things, on the information known at the time of publication of this report. The realization of the above depends among others, on external factors that that are not under the Company's control, such as changes and trends in the spread of the coronavirus epidemic, decisions by competent authorities in Israel and overseas and business decisions of the Company's customers and suppliers in Israel and around the world. It is clarified that there is no assurance that the forward looking information will be realized, and even if it is realized, there is no assurance that its realization will not be different from the above, even substantially.

B. Corporate Governance Aspects

10. Donations

In the report period, donation of approximately USD 40 thousand were granted. As of the date of the report and the report date, the Company has no donation policy. Accordingly, donation requests that are received by the Company are considered on merits, and as of the date of the report there has been no material commitment to donate in future periods.

11. Directors with accounting and financial expertise

Pursuant to the decision of the Company's board of directors, the minimum number of directors with accounting and financial expertise that is proper for the Company, in accordance with section 92(a) (12) of the Companies Law, 5759-1999 (the “**Companies Law**”), is two (2) directors, considering the nature of the accounting issues and accounting control issues arising in preparing the Company's financial statements, the Company's areas of activity, the size of the Company and the scope and complexity of its activities.

As of the report date, the Company's board of directors has seven (7) directors with accounting and financial expertise, as follows: Mr. Brian Abrahams (Director), Mr. James L. Liang (Director), Ms. Lisa Hamit (Director), Mr. Zachary Gat (Director), Mr. Gal Gitter (Director), Mr. Benjamin Weiss (Independent Director) and Ms. Neta Benari (External Director).

For further details regarding the directors with accounting and financial expertise listed above, including their skills, education, experience and knowledge, on the basis of which the Company considers them to have accounting and financial expertise, see regulation 26 of the report on additional details on the corporation.

12. Independent directors

The Company's articles of association do not include a provision regarding the proportion of independent directors.

13. Internal auditor of the Company

For details regarding the Company's internal auditor (pursuant to regulation 10 (b) (11) and the Fourth Addendum to the Reporting Regulations), see section 13 of the 2021 Board Report.

On May 2, 2022, the members of the Company's audit committee discussed a risk survey conducted by the Company's internal auditor, on the basis of which an annual audit plan for 2022 was determined, which includes the following topics: (a) Procurement and contracting with suppliers, consultants and service providers; (b) Cyber and Information security; and (c) Customer Support / success.

C. Disclosure Provisions in Regard to the Corporation's Financial Reporting

14. Material events in the reported period and thereafter

14.1. On March 31, 2022, the Company⁹contractually engaged with a group customer, who is one of the ten largest banking corporations in the USA (the “**Customer**”), in an amendment to the license usage agreement that was executed between the Company and the Customer of August 1, 2019, as amended from time to time (the “**Amendment**”). In the framework of the Amendment, the period of the license granted to the Customer for using the Enterprise¹⁰ system extended, which is installed at the center of the Customer’s data (on-premise) (the “**System**”), and the uses of the System were expanded.

For more information about the Amendment and its main provisions, including the validity of the usage license and payment terms, see the Company’s immediate report dated March 31, 2022 (reference no: 2022-01-033477), the information of which is presented in this report by way of reference.

14.2. For additional details regarding material events in the reported period and thereafter see sections 1.2 and 8 to this board of directors' report.

15. The Company's liabilities by maturity dates

Report on the Company's liabilities by maturity dates as of March 31, 2022, is published in a separate reporting form concurrently with the publication of this report and the information therein is included by way of reference.

May 10, 2022

Mr. Brian Abrams

Chairman of the Board

Mr. Yaron Morgenstern

The Company CEO

⁹ Through Glassbox USA.

¹⁰ For more information about the Enterprise system, see section 1.16.1 of the description of the corporation’s business report.

Chapter B – Financial Statements

**Consolidated interim financial statements and separate financial information (Solo) as of March 31,
2022**