

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  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
Date of event requiring this shell company report \_\_\_\_\_

Commission file number: 001-38775

**ITAMAR MEDICAL LTD.**

(Exact name of registrant as specified in its charter)

N/A

(Translation of registrant's name into English)

Israel

(Jurisdiction of incorporation or organization)

9 Halamish Street

Caesarea 3088900, Israel

(Address of principal executive offices)

Shy Basson, CFO

Tel: +972-4-6177000; Fax: +972-4-6275598

Itamar Medical Ltd., 9 Halamish Street, Caesarea 3088900, Israel

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

<u>Title of Each Class</u>	<u>Name of Each Exchange on which Registered</u>
American Depositary Shares, each representing 30 Ordinary Shares, par value NIS 0.01 per share (1)	The Nasdaq Stock Market LLC
Ordinary Shares, par value NIS 0.01 per share (2)	The Nasdaq Stock Market LLC

(1) Evidenced by American Depositary Receipts.

(2) Not for trading, but only in connection with the listing of the American Depositary Shares.

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 (December 31, 2018): 287,615,892 ordinary shares

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<sup>†</sup> provided pursuant to Section 13(a) of the Exchange Act.

<sup>†</sup> The term “new or revised financial accounting standard” refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

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 by the International Accounting Standards Board

Other

If “Other” has been checked in response to the previous question indicate by check mark which financial statements 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

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## INTRODUCTION

We are Itamar Medical Ltd., an Israeli company. We are a medical technology company that designs, develops, manufactures and sells sleep apnea diagnostic ambulatory products and related services.

Unless indicated otherwise by the context, all references in this annual report to “*Itamar Medical*”, the “*Company*”, “*our Company*”, “*we*”, “*us*”, “*our*” or the “*Registrant*” are to Itamar Medical Ltd. and its subsidiaries.

When the following terms and abbreviations appear in the text of this annual report, they have the meanings indicated below:

- “*ADSs*” means our American Depositary Shares, each representing 30 ordinary shares.
- “*Companies Law*” means the Israeli Companies Law, 1999.
- “*convertible notes*” or “*Series L convertible notes*” mean the convertible notes we issued as part of a public offering we conducted in 2013, all of which notes were fully repaid in February 2018.
- “*CPAP*” means continuous positive airway pressure. CPAP devices are therapy devices used to treat certain sleep apnea conditions.
- “*CPT*” means Cost per Test, which is a service offered as part of our TSS program, whereby the customer pays a fixed fee per HSAT that includes all the components associated with the test, including the disposable biosensor, hardware rental fees and access to CloudPAT.
- “*dollars*”, “*U.S. dollars*” or “*\$*” mean United States dollars.
- “*Endo PAT*” means our device that enables testing of endothelial dysfunctions (the failure of the normal function of the inner lining of blood vessels).
- “*HSAT*” means home sleep apnea test.
- “*Israeli CPI*” means the Israeli consumer price index published by the Israeli Central Bureau of Statistics.
- “*MADs*” means mandibular advancement devices. MADs are therapy devices used to treat certain sleep apnea conditions, also known as sleep apnea oral or dental appliances.
- “*Nasdaq*” means the Nasdaq Stock Market LLC.
- “*NIS*” means New Israeli Shekels, the official currency of the State of Israel.
- “*ordinary shares*” means our ordinary shares, par value NIS 0.01 per share.
- “*OSA*” means obstructive sleep apnea.
- “*PAMS*” means patient adherence management services, the purpose of which is to increase sleep apnea and respiratory patients’ adherence rate.
- “*PAT*” or “*PAT signal*” means Peripheral Arterial Tonometry, or Peripheral Arterial Tone, which measures the arterial volume changes at the fingertip, reflecting the sympathetic nervous system activation.
- “*PSG*” means polysomnography. PSG is the process of monitoring, recording and analyzing physiologic data during sleep and wakefulness to assist in the assessment and diagnosis of sleep disorders.
- “*SEC*” means the United States Securities and Exchange Commission.
- “*TASE*” means the Tel Aviv Stock Exchange.

- “*TaaS*” means Test as a Service, also known as CPT (see above).
- “*TSS*,” “*TSS marketing program*” or “*TSS program*” means our Total Sleep Solution. TSS is our marketing program that is designed to allow any medical practice or physician that is not a sleep physician by specialty, easy access to a comprehensive suite of products and services for the diagnosis, treatment and management of patients they suspect suffer from sleep apnea.
- “*U.S. Subsidiary*” means Itamar Medical, Inc.
- “*Viola*” means, collectively, Viola Growth II A.V. LP, a limited partnership registered in Israel, Viola Growth II (A) L.P., a limited partnership registered in Cayman Islands, and Viola Growth II (B) L.P., a limited partnership registered in Cayman Islands.
- “*Viola Transaction*” means the private placement transaction pursuant to the share purchase agreement we entered into with Viola, dated as of August 26, 2015.
- “*Viola Warrants*” means warrants issued to Viola in November 2015 and January 2016 as part of the Viola Transaction.
- “*Warrants (Series 4)*” means the warrants issued to certain of our shareholders as part of a rights offering in December 2015.
- “*WatchPAT*” means our portable diagnostic device that enables HSATs.

### **EMERGING GROWTH COMPANY**

As a company with less than \$1.0 billion in revenue during our last fiscal year, we qualify as an “emerging growth company” as defined in the Jumpstart Our Business Startups Act of 2012, or the JOBS Act. An emerging growth company may take advantage of specified reduced reporting and other burdens that are otherwise applicable to public companies that are not emerging growth companies. For example, we have elected to rely on the following exemptions:

- an exemption from complying with any requirement that may be adopted by the Public Company Accounting Oversight Board, or the PCAOB, regarding mandatory audit firm rotation or a supplement to the auditor’s report providing additional information about the audit and the financial statements (auditor discussion and analysis); and
- an exemption from the auditor attestation requirement in the assessment of our internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act of 2002;

We may take advantage of the exemptions available for emerging growth companies for up to five years or such earlier time that we are no longer an emerging growth company. We would cease to be an emerging growth company if we have more than \$1.0 billion in annual revenue, have more than \$700 million in market value of the ADSs held by non-affiliates, or issue more than \$1.0 billion of non-convertible debt over a three-year period. We may choose to take advantage of some, but not all of these reduced burdens.

It should be noted that the JOBS Act permits an emerging growth company like us to take advantage of an extended transition period to comply with new or revised accounting standards applicable to public companies. We are choosing to “opt out” of this provision and, as a result, we will comply with new or revised accounting standards as required when they are adopted. This decision to opt out of the extended transition period is irrevocable.

## **PRESENTATION OF FINANCIAL INFORMATION**

Our consolidated financial statements appearing in this annual report are prepared in dollars and in accordance with International Financial Reporting Standards, or IFRS, as issued by the International Accounting Standards Board, or IASB, and are audited in accordance with the standards of the PCAOB.

On March 17, 2019, the exchange rate between the NIS and the dollar, as quoted by the Bank of Israel, was NIS 3.604 to \$1.00. Unless derived from our financial statements or indicated otherwise by the context, statements in this annual report that provide the dollar equivalent of NIS amounts or provide the NIS equivalent of dollar amounts are based on the exchange rate, as quoted by the Bank of Israel, as of such date.

## **MARKET, INDUSTRY AND OTHER DATA**

Unless otherwise indicated, information contained in this annual report concerning our industry and the markets in which we operate, including our competitive position and market opportunity, is based on information from our own management estimates and research, as well as from industry and general publications and research, surveys and studies conducted by third parties. Management estimates are derived from publicly available information, our knowledge of our industry and assumptions based on such information and knowledge, which we believe to be reasonable. Our management estimates have not been verified by any independent source, and we have not independently verified any third-party information. In addition, assumptions and estimates of our and our industry's future performance are necessarily subject to a high degree of uncertainty and risk due to a variety of factors, including those described in Item 3.D "Risk Factors" below.

Statements made in this annual report concerning the contents of any contract, agreement or other document are summaries of such contracts, agreements or documents and are not complete descriptions of all of their terms. If we filed any of these documents as an exhibit to this annual report, you may read the document itself for a complete description of its terms, and the summary included herein is qualified by reference to the full text of the document which is incorporated by reference into this annual report.

## **TRADEMARKS**

We have obtained trademark registrations in the U.S. for, among others, PAT, Endo PAT, WatchPAT, EndoScore, ITAMAR, CloudPAT and SLEEPATH and some of them are also registered in additional jurisdictions, including Europe, Japan, Canada, China, India, Russia, Mexico, Korea and Singapore. Although we have omitted the "®" and "TM" trademark designations for such marks in this annual report, all rights to such trademarks and service marks are nevertheless reserved. Unless indicated otherwise by the context, any other trademarks and trade names appearing in this annual report are owned by their respective holders.

### **CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

*Except for the historical information contained in this annual report, the statements contained in this annual report are “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and the Private Securities Litigation Reform Act of 1995, as amended, and other federal securities laws with respect to our business, financial condition and results of operations. We urge you to consider that statements which use the terms “anticipate,” “believe,” “expect,” “plan,” “intend,” “estimate,” and similar expressions are intended to identify forward-looking statements. Such forward-looking statements reflect our current view with respect to future events and financial results.*

*We remind readers that forward-looking statements are merely predictions and therefore inherently subject to uncertainties and other factors and involve known and unknown risks that could cause the actual results, including revenues from agreements we signed, expansion of our operations, development and release of new products, performance, levels of activity, our achievements, or industry results, to be materially different from any future results, plans to expand our operations, plans to develop and release new products, performance, levels of activity, or our achievements, or industry results, expressed or implied by such forward-looking statements. Such forward-looking statements appear in Item 3.D “Risk Factors”, Item 4 “Information on the Company” and Item 5 “Operating and Financial Review and Prospects” as well as elsewhere in this annual report. The forward-looking statements contained in this annual report are subject to risks and uncertainties, including those discussed under Item 3.D “Risk Factors” and in our other filings with the SEC. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof.*

*Except as required by applicable law, including the securities laws of the United States, we undertake no obligation to publicly release any update or revision to any forward-looking statements to reflect new information, future events or circumstances, or otherwise after the date hereof.*

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**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 selected consolidated statements of operations data for the years ended December 31, 2018, 2017 and 2016 and the selected consolidated balance sheet data as of December 31, 2018 and 2017, are derived from our audited consolidated financial statements set forth elsewhere in this annual report. The selected consolidated balance sheet data as of December 31, 2016 and 2015 have been derived from our audited consolidated financial statements which are not included in this annual report.

*You should read the following selected financial data in conjunction with, and it is qualified in its entirety by reference to, our historical financial information and other information provided in this annual report, including Item 5. "Operating and Financial Review and Prospects" and our consolidated financial statements and notes thereto set forth elsewhere in this annual report. The historical results set forth below are not necessarily indicative of the results to be expected in future periods.*

	<b>Year Ended December 31,</b>			
	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<b>(in thousands, except per share and share data)</b>			
<b>Consolidated Statements of Operations Data:</b>				
Revenues	\$ 24,189	\$ 20,701	\$ 18,440	\$ 16,807
Cost of revenues	5,726	5,002	4,979	4,401
Gross profit	18,463	15,699	13,461	12,406
Operating expenses:				
Selling and marketing expenses	12,699	12,140	14,035	10,684
Research and development expenses	3,638	4,129	3,225	2,831
General and administrative expenses	5,247	5,278	6,213	4,350
Total operating expenses	21,584	21,547	23,473	17,865
Operating loss	(3,121)	(5,848)	(10,012)	(5,459)
Financial income (expenses) from cash and investments	244	1,591	716	(354)
Financial expenses from notes, loans and other	(1,161)	(4,884)	(4,760)	(4,229)
Gain (loss) from derivative instruments, net	2,433	3,925	(216)	7,930
Financial income (expenses), net	1,516	632	(4,260)	3,347
Loss before income taxes	(1,605)	(5,216)	(14,272)	(2,112)
Taxes on income	(124)	(85)	(131)	(135)
Net loss	\$ (1,729)	\$ (5,301)	\$ (14,403)	\$ (2,247)
Loss per share:				
Basic	\$ (0.01)	\$ (0.02)	\$ (0.05)	\$ (0.01)
Diluted	\$ (0.01)	\$ (0.02)	\$ (0.05)	\$ (0.02)

	As of December 31,			
	2018	2017	2016	2015
	(in thousands)			

**Consolidated Balance Sheet Data:**

Cash and cash equivalents	\$ 6,471	\$ 7,643	\$ 23,358	\$ 33,019
Investment in marketable securities	-	3,173	2,781	2,710
Working capital	6,222	3,356	18,843	36,989
Total assets	18,392	21,227	35,547	43,740
Total non-current liabilities	1,653	4,133	15,986	22,169
Accumulated deficit	(105,546)	(105,004)	(100,885)	(88,151)
Total equity	6,688	1,377	5,241	16,951

**B. CAPITALIZATION AND INDEBTEDNESS**

Not applicable.

**C. REASONS FOR THE OFFER AND USE OF PROCEEDS**

Not applicable.

**D. RISK FACTORS**

*The following risk factors, among others, could in the future affect our actual results of operations and could cause our actual results to differ materially from those expressed in any forward-looking statements made by us. These forward-looking statements are based on current expectations and we assume no obligation to update this information, except as may be required by applicable law. Before you decide to buy, hold, or sell our ordinary shares or ADSs, you should carefully consider the risks described below, in addition to the other information contained elsewhere in this annual report. The following risk factors are not the only risk factors facing our Company. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business. Our business, financial condition and results of operations could be seriously harmed if any of the events underlying any of these risks or uncertainties actually occurs. In that event, the price for our ordinary shares and ADSs could decline, and you may lose all or part of your investment.*

**Risks Related to Our Business and Operations**

***We have a history of losses, may incur future losses and may never achieve profitability.***

Since our incorporation in 1997, we have incurred operating and net losses in most of our years of operation. In particular, we incurred operating losses of approximately \$3.1 million, \$5.8 million and \$10.0 million for the years ended December 31, 2018, 2017 and 2016, respectively. We expect to continue to incur operating and net losses for the foreseeable future, as we continue to invest in research and development and marketing and sales operations aimed at growing our business. The extent of our future operating and net losses is highly uncertain and we may never achieve or sustain profitability. Even if we reach and maintain profitability, we cannot assure that future net income will offset our cumulative losses, which, as of December 31, 2018 was approximately \$105.5 million. In addition, there is no guarantee that we will be able to benefit from our losses for tax purposes.

***There is no certainty that our WatchPAT device and related services will be accepted by the international medical community, in general, and specifically by the cardiology community.***

Building upon our WatchPAT device and related services, one of the key elements of our business strategy and success is to focus on and sell a one-stop sleep apnea solution for the cardiology market. Our success in doing so depends, to a large extent, on the recognition by the international medical community, in general, and by the cardiology community in particular, of:

- the linkage between sleep apnea and cardiovascular disease;
- the advantages of shifting the point of care for sleep apnea, mainly in the U.S., from sleep centers to the cardiology care point; and
- the advantages of our WatchPAT product and related services.

Recognition by the cardiology community of the linkage between sleep apnea and cardiovascular disease depends, among other things, on our ability to promote awareness amongst physicians, primarily cardiologists, to such linkage, including by providing supporting clinical data and studies demonstrating the said linkage and benefits of sleep apnea diagnosis and treatment to their cardiology patients. Recognition by the cardiology community of the advantages of shifting the point of care for sleep apnea, mainly in the U.S., from sleep centers to the cardiology care point, in general, and of the advantages of our WatchPAT product and related services in particular, depends to a large extent on our ability to demonstrate that (1) our WatchPAT device is efficient, cost effective and provides significant improvement in performance and data compared to other diagnostic tools available in the sleep market and (2) our WatchPAT related services, such as our TSS program, provide cardiologists with an easy access to prescribe HSATs to patients and increases the diagnosis rate with an effective management and monitoring of sleep apnea.

Even if we succeed in promoting awareness to the linkage between sleep apnea and cardiovascular disease and in proving the advantages of shifting the point of care to the cardiology care point and the advantages of our WatchPAT product and related services, there is a risk that healthcare service providers and other prospective customers will avoid purchasing our products and related services for any number of other reasons. For example, they may continue to use PSG tests in sleep centers or other, traditional HSAT devices because such diagnostic tools are already widely accepted. The failure to gain wide market acceptance of the linkage between sleep apnea and cardiovascular disease and in proving the advantages of shifting the point of care to the cardiology care point or the failure of our WatchPAT product and related services to otherwise gain market acceptance would adversely affect our business, financial condition and results of operations.

***If healthcare providers are not adequately reimbursed for procedures conducted in connection with the use of our products and related services, we may not be successful in marketing and selling our products.***

We market our products and related services primarily to healthcare providers, including health facilities and physicians, many of whom rely on reimbursement for the healthcare services they receive or provide to their patients, from third-party payors, such as Medicare and Medicaid in the U.S., as well as private insurance plans, managed care programs and other domestic and international government programs. These healthcare providers as well as government agencies are unlikely to purchase our products if they are not adequately reimbursed for the procedures conducted using our products. Unless a sufficient amount of conclusive, peer-reviewed clinical data about our products has been published and regular clinical use is documented, third-party payors, including insurance companies and government agencies, may refuse to provide reimbursement.

Even if reimbursement is provided for our products, it may not be adequate to fully compensate the health facilities and physicians. For example, in the U.S., our largest market, the American Medical Association, or AMA, assigns specific Current Procedural Terminology, or CPT codes, which describe medical, surgical, and diagnostic services and are necessary for establishing reimbursement of any medical service. Once the CPT code is established, the Centers for Medicare and Medicaid Services establish reimbursement payment levels and coverage rules under Medicaid and Medicare, and private payors establish rates and coverage rules independently. In 2010, AMA has assigned a category I CPT code to the Peripheral Arterial Tone, or PAT-based technology utilized in our WatchPAT product. Nevertheless, generally, medical institutions in the United States that use our WatchPAT test for diagnosis of sleep apnea may be able to receive only partial reimbursement for the use of our WatchPAT products. In addition, most Medicaid payors currently do not cover HSATs, such as our WatchPAT. In Japan, our second largest market in the past two years, our WatchPAT product was approved by local authorities and medical institutions that use our WatchPAT test for diagnosis of sleep apnea are entitled to a fixed reimbursement per test. Nevertheless, local authorities have limited such clearance to diagnose obstructive sleep apnea, or OSA, for the purpose of prescribing therapy only to those patients who are categorized as severe and, to our knowledge, PSG tests remain the dominant means of sleep apnea diagnosis.

In addition, some third-party payors may also impose restrictions on the procedures for which they will provide reimbursement, such as guidelines and standards for the dispatch, prescription and billing procedures for medical products. For example, Medicare has issued guidelines that generally require the billing physician prescribing a sleep test to be a board-certified sleep physician or a staff member of accredited sleep centers only.

If healthcare providers cannot obtain sufficient reimbursement from third-party payors for our products or the tests conducted with our products, or if third-party payors impose restrictions on the procedures for which they will provide reimbursement as described above, we may not achieve significant market acceptance of our products and related services. Acceptance of our products and related services in the U.S. and in international markets depends to a large extent upon the availability of adequate reimbursement or funding within prevailing healthcare payment systems. Reimbursement, funding, and healthcare payment systems vary significantly by country and we may not obtain approvals for reimbursement in a timely manner or at all.

Even if we are successful in obtaining third party reimbursement or coverage for our products, adverse changes in reimbursement policies in general could harm our business. We are unable to predict changes in the reimbursement methods used by third-party healthcare payors. In addition, some payors are moving toward a managed care system in which providers contract to provide comprehensive healthcare for a fixed cost per person. In a managed care system, the cost of our products may not be incorporated into the overall payment for patient care or there may not be adequate reimbursement for our products separate from reimbursement for other procedures.

In addition, our TSS program relies, to some extent, on the reimbursement available for sleep apnea treatment devices, such as CPAP devices and on the desire of durable mobile equipment providers, or DMEs, to sell such devices. If healthcare providers cannot obtain sufficient reimbursement from third-party payors for such third-party treatment devices, our business may suffer. For example, in the past several years, Medicare has gradually reduced the reimbursement levels of CPAP devices. A further reduction of reimbursement levels or institution of burdensome restrictions and procedures on such reimbursement may also cause DMEs to lose interest in selling such devices, in which case, our TSS program and business would suffer.

***There is no certainty that our WatchPAT device will be included in, or recommended by, any clinical practice guidelines or other guidelines and standards relevant to our business.***

Professional associations publish, from time to time, clinical practice guidelines, suggesting processes and procedures intended for various medical conditions, as well as other guidelines and standards for the dispatch, prescription and billing procedures for medical devices. Such guidelines and standards have significant importance and influence on decisions by various health plans administrators, clinicians, government agencies and hospital administrators. In addition, many physicians consider clinical practice guidelines and act according to the recommendations included therein. For example, the clinical practice guidelines for the diagnosis of OSA, published by the American Academy of Sleep Medicine, or AASM, included the PAT-based technology used by our WatchPAT product only in March 2017, whereas AIM Specialty Health, or AIM, an organization which manages the insurance reimbursement policy for some of the insurance companies and payors in the U.S., updated its guidelines to medical insurers to include sleep apnea diagnostic tests using the PAT-based technology, only in November 2017. However, there is no assurance that all medical insurers will follow the foregoing AAMS and AIM guidelines and provide reimbursement for our WatchPAT product and related services. There is also no certainty that our product will continue to be included in such guidelines, or recommended by, additional clinical guidelines or that the methods by which we offer our products and related services for sale will be consistent with guidelines and standards related to the dispatch, prescription and billing procedures for medical devices.

If we fail to have our products included in such clinical practice guidelines (or, in the case of the AAMS and AIM guidelines, continue to be included in such guidelines) or if we fail to offer our products and related services for sale in a manner consistent with guidelines and standards related to the dispatch, prescription and billing, it could have an adverse effect on our business, financial condition and results of operations.

***We depend on the sales of our WatchPAT device.***

Building upon our WatchPAT device and related services, one of the key elements of our business strategy and success is to focus on and sell a one-stop sleep apnea solution for the cardiology market. In order to do so, we have, among other things, focused and invested substantial time and resources in the past years on developing various solutions and WatchPAT related services, such as our TSS program, and, at the same time, limited our sales and marketing efforts for our legacy Endo PAT product, whose sales gradually decreased in the years ended December 31, 2016, 2017 and 2018. However, the sales of the WatchPAT as a stand-alone product remain our main source of revenue, representing approximately 92.5%, 87.5% and 85.1% of our total revenues in the years ended December 31, 2018, 2017 and 2016, respectively. If we are not successful in implementing our business strategy to sell a one-stop sleep apnea solution for the cardiology market and increase the sales of our WatchPAT and related consumables and services or able to use our technologies to further develop and enhance our products and services with significant commercial potential, we will not be able to achieve our objectives or build a sustainable or profitable business.

***The loss of one or more of our material customers or a decline in demand from one or more of these customers could harm our business.***

Historically, a limited number of customers accounted for a substantial portion of our total sales. For example, in the year ended December 31, 2018, our three largest customers for that year, namely, Kaiser Foundation Health Plan, Inc., or Kaiser, Philips Respiroics GK, a subsidiary of Koninklijke Philips NV (also known as Royal Philips), or Philips Japan, and the Department of Veterans Affairs, or VA, accounted for 18.9%, 13.3 % and 11.9 %, respectively, of our total revenues. There can be no assurance that such customers will continue to order our products in the same level or at all. A reduction or delay in orders from such customers, including reductions or delays due to market, economic or competitive conditions, could have a material adverse effect on our business, operating results and financial condition.

***We depend on our proprietary PAT-based technology.***

Our PAT-based technology is designed to provide a non-invasive window to the cardiovascular system and autonomic nervous system by monitoring the PAT signal and analyzing it for diagnostic purposes. Since our products are mainly based on our PAT-based technology, we are dependent on such technology that has taken us many years to develop. We have benefited from the fact that the type of proprietary technology equivalent to our PAT-based technology has not been widely available to or used by our competitors. If our technology becomes more widely available to our current or future competitors for any reason, our operating results may be adversely affected. Additionally, adoption or development of similar or more advanced technologies by our competitors may require that we devote substantial resources to the development of more advanced technology to remain competitive.

***The market for our WatchPAT device and related services is highly competitive. If we are unable to compete successfully, this would adversely impact our business, revenues and results of operation.***

The market for our WatchPAT device is highly competitive and is characterized by frequent product improvements and evolving technology. Our competitors range from small privately held companies to multinational corporations and their product offerings vary in scope and breadth, and some of our competitors may have certain competitive advantages, including:

- significant brand name recognition;
- established relationships with healthcare professionals, customers and third-party payors;
- established distribution networks and channels;
- additional product lines and the ability to offer rebates or bundle products to offer higher discounts or other incentives to gain a competitive advantage; and
- greater financial and human resources for product development, sales and marketing, customer support and intellectual property litigation.

Also, while we are not aware of a service offering similar to our TSS program and other WatchPAT related services that are targeted at the cardiology community, we believe that competitors who possess robust financial resources and sales and regulatory personnel may be able to overcome the barriers to entry into this market and offer products and service models similar to our TSS program.

Our ability to compete successfully depends, in part, on our ability to continuously develop, improve and market our WatchPAT device and related services. Consequently, we may need to increase our efforts, and related expenses for research and development, clinical studies and sales and marketing, to maintain or improve our market position. Additionally, our efforts to educate the medical community, specifically the cardiology community, and third-party payors on the linkage between sleep apnea and cardiovascular conditions, the advantages of shifting the point of care for sleep apnea from sleep centers to the cardiology care point as well as on the benefits of the WatchPAT and related services may require significant resources and may not be successful.

The development of innovative new products and services by our competitors for the same or similar indications as our offering, which competitive products and services may be less costly, more effective, or more widely accepted by the medical community, may also adversely affect the sales of our products and related services and could result in our products and services being noncompetitive or obsolete. In addition, our WatchPAT device may be subject to pricing pressures as a result of competition with other HSATs or with PSG tests.

***If we are unable to support our plans for continued growth, our business could suffer.***

We intend to increase our investment in research and development activities and expand our sales and marketing activities. If we continue to grow, the complexity of our operations is likely to increase, placing greater demands on our management. Our ability to manage our growth effectively depends on our ability to implement and improve our financial and management information systems on a timely basis and to effect other changes in our business including, the ability to monitor and improve our manufacturing systems, and align our information, quality and regulatory compliance systems, among others. Unexpected difficulties during expansion, the failure to attract and retain qualified employees and subcontractors, the failure to successfully replace or upgrade our management information systems, the failure to manage costs or our inability to respond effectively to growth or plan for future expansion could halt our growth. If we fail to manage our growth effectively and efficiently, our costs could increase faster than our revenues and our business results could suffer.

***We depend on strategic relationships with our distributors and other business partners and our revenues may be reduced if such relationships are not successful or are terminated.***

Our products and services are offered through both direct and indirect channels, including distributors, and other business partners. Specifically, we rely on strategic relationships with distributors and other business partners, such as Philips Japan who acts as the exclusive distributor of our WatchPAT products in Japan, to sell our products, and these relationships account for a large portion of our revenues. In addition, in order to promote our TSS program, we are also developing partnerships with various business partners whose products or services are complimentary to ours. For example, we have entered into agreements with Philips Respironics, Inc., or Philips U.S., an affiliate of Philips Japan, under which we were granted non-exclusive rights to distribute its sleep apnea treatment devices, such as CPAP devices, to DMEs that participate in our TSS program to cardiology centers in the United States. Any failure of these relationships, whether to market our products effectively or generate significant revenues for us or our inability to sell products and services that are complimentary to ours, a termination of any of these relationships, or if we are unable to form additional strategic alliances in the future that will prove beneficial to us, could have a material adverse effect on our business, operating results and financial condition.

***We are dependent on a single facility that houses the majority of our manufacturing operations.***

We are dependent on the uninterrupted and efficient operations of our leased manufacturing facility, located in Caesarea, Israel. If operations at the plant were to be disrupted as a result of equipment failures, earthquakes and other natural disasters, fires, accidents, work stoppages, power outages, acts of war or terrorism or other reasons, we will likely need to use subcontractors until we are able to set up an alternative facility and our business could be materially adversely affected. Lost sales or increased costs that we may experience during the disruption of operations may not be recoverable under our insurance policies, and longer-term business disruptions could result in a loss of customers. If this were to occur, our business could be materially negatively impacted.

***We are dependent upon third-party manufacturers and suppliers, which make us vulnerable to supply disruptions.***

In addition to manufacturing our products in our own manufacturing facility, we also engage third party manufacturers and suppliers for the assembly or manufacturing of our products as well as to provide us with software licenses for information technology, or IT platforms and other applications which we use as part of our CloudPAT and related services. Some of our suppliers and third-party manufacturers are not obligated to continue to supply us. We have relatively few sources of supply for some of the components and materials used in our products and IT platforms and other applications and, in some cases, we rely entirely on sole-source suppliers. In addition, the lead-time involved in the manufacturing of some of these components can be lengthy. Our third-party suppliers and manufacturers may encounter problems during manufacturing or supply due to a variety of reasons, including, among others, failure to follow specific protocols and procedures, failure to comply with applicable regulations, equipment or software malfunctions, environmental factors, or work force stoppages, any of which could delay or impede their ability to meet our demand for components or ongoing support. Our sole-source suppliers, and any of our other suppliers or our third-party contract manufacturers, may be unwilling or unable to supply the necessary materials and components or manufacture and assemble our products reliably and at the levels we anticipate or that are required by the market. Our ability to supply our products and related services commercially and to develop any future products and related services depends, in part, on our ability to obtain these materials, components and products in accordance with regulatory requirements and in sufficient quantities for commercialization and clinical testing. For example, we rely upon a single supplier who provides us with development services and database management services used for our CloudPAT platform.

While our suppliers and other contract manufacturers have generally met our demand for their products and services on a timely basis in the past, we cannot guarantee that they will in the future be able to meet our demand for their products and services, either because of acts of nature, the nature of our agreements with those suppliers and other manufacturers or our relative importance to them as a customer, and our suppliers and other manufacturers may decide in the future to discontinue or reduce the level of business they conduct with us. While we believe we can engage alternative suppliers, license or purchase our requirements or develop an alternative independently, changing suppliers or contract manufacturers due to any change in or termination of our relationships with these third parties may be a lengthy and expensive process and, consequently, we may lose sales, experience manufacturing or other delays, incur increased costs or otherwise experience impairment to our customer relationships. We cannot guarantee that we will be able to establish alternative relationships on adequate terms and without delays.

Our reliance on third-party suppliers also subjects us to additional risks that could harm our business, including, among others:

- our third-party suppliers or third-party manufacturers, especially new suppliers or manufacturers, may make manufacturing errors that may not be detected by our quality assurance testing, which could negatively affect the efficacy or safety of our products or cause shipment delays due to such errors;
- our suppliers or third-party manufacturers may encounter financial or other hardships unrelated to our demand, which could inhibit their ability to fulfill our orders and meet our requirements; and
- our suppliers or third-party manufacturers may not maintain their regulatory approvals and as a result we may not be able use their products or services, which may result in delays and reduction of our production capacity.

In addition, replacement or alternative sources might not be readily obtainable due to regulatory requirements and other factors applicable to our manufacturing operations. Incorporation of components or services from new suppliers or new third-party manufacturers into our products and related services may require a new or supplemental filing with applicable regulatory authorities and clearance or approval of the filing before we could resume product manufacturing. This process may take a substantial period of time, and we may not be able to obtain the necessary regulatory clearance or approval. This could also create supply disruptions that would harm our ability to meet our delivery obligations to our customers and may impede product sales and could have a material adverse effect on our business, financial condition and results of operations.

***Our freedom to operate our business is limited as a result of certain restrictive covenants contained in our credit facility.***

In March 2019, we secured a line of credit of up to \$15 million from an Israeli bank. In order to secure our obligations to the bank, we pledged and granted to the bank a first priority floating charge on all of our assets and a first priority fixed charge on (i) our intellectual property, goodwill, holdings in our subsidiaries and certain other, immaterial, assets; and (ii) all of the assets of the U.S. Subsidiary. We refer to the agreements relating to such charges and other security interests as the Security Agreements.

The Security Agreements contain a number of customary restrictive terms and covenants that limit our operating flexibility, such as (i) limitations on the creation of additional liens, on the incurrence of indebtedness, on the provision of loans and guarantees and on distribution of dividends; and (ii) the ability of the bank to accelerate repayment in certain events, such as breach of covenants, liquidation, and a change of control of our Company. In addition, our right to make any draws under the credit line is conditioned upon us having cash balances with the bank of not less than 40% of the total amount drawn in our account with the lending bank. Such provisions may hinder our future operations or the manner in which we operate our business, which could have a material adverse effect on our business, financial condition or results of operations.

***Defects or failures associated with our products or our quality system could lead to the filing of adverse event reports, product recalls or safety alerts with associated negative publicity and could also subject us to regulatory actions.***

Manufacturing flaws, component failures, design defects, off-label uses or inadequate disclosure of product-related information could result in an unsafe condition or bodily injury of a patient. These problems could lead to a recall of, or issuance of a safety alert relating to, our products and result in significant costs and negative publicity. An adverse event involving one of our products could result in reduced market acceptance and demand for all products within that brand, and could harm our reputation and our ability to market our products in the future. In some circumstances, adverse events arising from or associated with the design, manufacture or marketing of our products could result in the suspension of current regulatory approvals of our products or delays in regulatory reviews of our applications for new product approvals or clearances. We may also voluntarily undertake a recall of our products, temporarily shut down production lines, or place products on a shipping hold based on internal safety and quality monitoring. We may also face litigation brought against us as a result of any of the foregoing instances, by customers and patients and there is no assurance that our insurance policies will fully cover such claims.

Our future operating results will depend on our ability to sustain an effective quality control system and effectively train and manage our employee base, suppliers and subcontractors with respect to our quality system. Our quality system plays an essential role in determining and meeting customer requirements, preventing defects and improving our products and services. While we have a network of quality systems throughout our business lines and facilities, quality and safety issues may occur with respect to any of our products. A quality or safety issue may result in a public warning letter or potentially a consent decree from the U.S. Food and Drug Administration, or the FDA, in the U.S. and from similar regulatory bodies elsewhere. In addition, we may be subject to product recalls or seizures, monetary sanctions, injunctions to halt manufacturing and distribution of products, civil or criminal sanctions, import detentions of our products, and restrictions on operations. Any of the foregoing events could disrupt our business and have an adverse effect on our results of operations and financial condition.

***We face the risk of product liability claims that could be expensive, divert management attention and harm our reputation and business. We may not be able to maintain adequate product liability insurance.***

Our business exposes us to the risk of product liability claims that are inherent in the testing, manufacturing and marketing of medical devices. This risk exists even if a device is cleared or approved for commercial sale by the FDA and manufactured in facilities licensed and regulated by the FDA or an applicable foreign regulatory authority. Our products are designed to test, and future products may be designed to test, important bodily functions and processes. Any side effects, manufacturing defects, misuse or abuse associated with our devices could result in patient injury. The medical device industry has historically been subject to extensive litigation over product liability claims, and we cannot offer any assurance that we will not face product liability suits. We may be subject to product liability claims if our devices cause, or merely appear to have caused, patient injury. In addition, an injury that is caused by the activities of our suppliers, such as those who provide us with components and raw materials, may be the basis for a claim against us either as manufacturers or resellers of third party devices. Product liability claims may be brought against us by patients, physicians, healthcare providers or others selling or otherwise coming into contact with our products or, while less likely, the products we resell.

If we cannot successfully defend ourselves against product liability claims, we will incur substantial liabilities and reputational harm. In addition, regardless of merit or eventual outcome, product liability claims may result in:

- cost of litigation;
- distraction of management's attention from our primary business;
- the inability to commercialize our products and related services;
- decreased demand for our products and related services;
- damage to our business reputation;
- product recalls or withdrawals from the market;
- withdrawal of clinical trial participants;
- substantial monetary awards to patients or other claimants; and
- loss of sales.

While we may attempt to manage our product liability exposure by proactively recalling or withdrawing from the market any defective products, any recall or market withdrawal of our products may delay the supply of those products to our customers and may impact our reputation. We can provide no assurance that we will be successful in initiating appropriate market recall or market withdrawal efforts that may be required in the future or that these efforts will have the intended effect of preventing product malfunctions and the accompanying product liability that may result. Such recalls and withdrawals may also be used by our competitors to harm our reputation for safety or be perceived by patients as a safety risk when considering the use of our products, either of which could have a material adverse effect on our business, financial condition and results of operations.

Although we have product liability and clinical study liability insurance that we believe is appropriate, this insurance is subject to deductibles and coverage limitations. Our current product liability insurance may not continue to be available to us on acceptable terms, if at all, and, if available, coverage may not be adequate to protect us against any future product liability claims. If we are unable to obtain insurance at an acceptable cost or on acceptable terms or otherwise protect against potential product liability claims, we could be exposed to significant liabilities. A product liability claim, recall or other claim with respect to uninsured liabilities or for amounts in excess of insured liabilities could have a material adverse effect on our business, financial condition and results of operations.



***If we receive a significant number of warranty claims or our products require significant post-sale support, our costs will increase and our business and financial results will be adversely affected.***

Sales of our products generally include a warranty on our part, generally for a period of twelve months from the date the product is delivered to the customer's facility. While we have not experienced many warranty claims in the past and the cost of repairing or replacing our products has not been material thus far, if product returns or warranty claims are significant or exceed our expectations, we could incur unanticipated reductions in sales or additional expenditures for parts and service. In addition, our reputation could be damaged and our products may not achieve market acceptance.

***Long lead-times required by certain suppliers could prevent us from meeting the demand for our products. As such, if we do not accurately forecast such demand, our operating results could be adversely affected.***

Market uncertainty makes it difficult for us, our customers, our distributors and our suppliers to accurately forecast future product demand trends, which could cause us to order or produce excess products that can increase our inventory costs and result in obsolete inventory. Alternatively, this forecasting difficulty could cause a shortage of products, or components and materials used in our products that could result in an inability to satisfy demand within a timeframe acceptable by our customers for our products and a resulting material loss of potential revenue.

In addition, some of our suppliers, such as suppliers of components, may require extensive advance notice of our requirements in order to produce products in the quantities we desire. This long lead-time, which in some cases can be more than six months, may require us to place orders far in advance of the time when certain products will be offered for sale, thereby also making it difficult for us to accurately forecast demand for our products, exposing us to risks relating to shifts in consumer demand and trends and adversely affecting our operating results.

***The risks and uncertainties inherent in conducting clinical trials could delay or prevent the development and commercialization of new products, or new indications for our products, which could have a material adverse effect on our results of operations, financial condition, and growth prospects.***

Manufacturers are generally required to conduct clinical trials prior to obtaining regulatory authorizations to market and sell a medical device in any given territory. Clinical trials are experiments conducted or observations made in clinical research of our medical devices on human participants. Such trials are designed to answer particular questions about novel medical devices or new indications that require further study and provide data about the product's safety and efficacy and can be conducted only after approval of the proposed clinical trial by the health authority or institute ethics committee.

There are a number of risks and uncertainties associated with conducting clinical trials. Clinical trials vary in scale and scope and may entail significant costs. They are also often conducted with patients having advanced stages of disease and, as a result, during the course of the trial, these patients may suffer adverse medical effects for reasons that may not be related to the product being tested, but which nevertheless affect the clinical trial results. In addition, side effects experienced by the patients may cause a delay of approval or limited profile of an approved product. Moreover, clinical trials may not demonstrate sufficient safety and efficacy to obtain FDA approval or the approval of applicable foreign regulatory authorities.

Failure can occur at any time during the clinical trial process, the results from early clinical trials may not be predictive of results obtained in later and larger clinical trials and product candidates in later clinical trials may fail to show the desired safety or efficacy despite having progressed successfully through earlier clinical testing. In the future, the completion of clinical trials, if required, for our new products or new indications of current products may be delayed or halted for many reasons, including:

- delays in patient enrollment, and variability in the number and types of patients available for clinical trials;
- regulators or institutional review boards or ethics committees may not allow us to commence or continue a clinical trial;
- risks associated with trial design, which may result in a failure of the trial to show statistically significant results even if the product candidate is effective;
- poor effectiveness of product candidates during clinical trials;
- safety issues, including adverse events associated with product candidates, occurring during clinical trials;
- the failure of patients to complete clinical trials due to adverse side effects, dissatisfaction with the product candidate, or other reasons; and
- governmental or regulatory delays or changes in regulatory requirements, policy, guidelines or interpretations.

The FDA or foreign regulatory authorities may require us to conduct unanticipated additional clinical trials as part of future product submissions, which could result in additional expenses and delays in bringing new products to the market. Any failure or delay in completing clinical trials for new products or new indications of our products, would prevent or delay the commercialization of our product or the introduction of new indications for our products. There is no certainty that our expenses related to clinical trials will lead to the development of products or new product indications that will receive regulatory approval and generate revenues in the near future, or ever.

Delays or failure in the development and commercialization of our products could have a material adverse effect on our results of operations, liquidity, financial condition, and our growth prospects. Negative results of clinical trials performed by us or by third parties regarding the use of our products may also adversely affect the medical community's and customers' acceptance of our products.

***Our competitive position may be adversely affected if we fail to develop additional products and applications or enhance existing products.***

We plan to develop and manufacture additional products and applications using our PAT-based technology, and continue enhancing our existing line of products in order to remain competitive. There is no certainty that we will meet the technological, clinical and regulatory requirements or any other requirements applicable to the development process of such new products or applications. In addition, we may not have the financial resources necessary for the completion of such development. If we fail to develop additional products and applications, or enhance our existing products, it may have an adverse effect on our competitive position, reputation, our growth prospects and our business results, and our operating results may decline or fail to grow as expected. In addition, if we fail to develop and deploy new products and product enhancements on a timely basis or if we fail to gain market acceptance of our new products, our revenues will decline and we may lose market share to our competitors.

***We may require additional funds to support our strategy and long-term operational plans, and, if additional funds are not available, we may need to significantly scale back or even cease our planned operations.***

We plan to expand our business, which would require us to increase our investment in research and development as well as require expansion of our sales and marketing activities, including investing significant resources in further developing our sales work force and in obtaining insurance reimbursement of our product in additional territories, to support and drive our sales and marketing efforts. Our ability to take these and other actions may be limited by our available liquidity. As a consequence, in March 2019, we consummated a private placement for gross proceeds of approximately \$14.7 million and, in the future, we may seek additional financing.

Additional debt or equity financing that we may need may not be available on terms favorable to us, or at all, and, if additional funds are raised through an equity financing, the percentage ownership of our then current shareholders would be diluted. If we are unable to obtain such additional financing on a timely basis, we may have to curtail our development activities and growth plans or be forced to sell assets, perhaps on unfavorable terms, which would have a material adverse effect on our business, financial condition and results of operations. Further, we may not be able to continue operating if we do not generate sufficient revenues to finance our operations. In addition, we may incur substantial costs in pursuing capital financing, including investment banking fees, legal fees, accounting fees, securities law compliance fees, printing and distribution expenses and other costs.

***Our revenues and operating income could fluctuate significantly.***

Our revenues and operating results may vary significantly from year-to-year and quarter-to-quarter. Variations may result from, among other factors:

- the timing of product launches, and market acceptance of such products launched;
- changes in the amount we spend to research, develop, acquire, license or promote new products;
- the outcome of our research, development and clinical trial programs, as well as independent trials conducted without our involvement which could be published in peer-reviewed journals;
- serious or unexpected health or safety concerns related to our products or our product candidates;
- the introduction of new products by others that render our products obsolete or noncompetitive;

- the ability to maintain selling prices and high gross margins on our products;
- changes in coverage and reimbursement policies of health plans and other health insurers, including changes to Medicare, Medicaid and similar state programs;
- increases in the cost of components or raw materials used to manufacture our products;
- manufacturing and supply interruptions, including product rejections or recalls due to failure to comply with manufacturing specifications;
- the timing of FDA or any other foreign regulatory authority approvals;
- the ability to protect our intellectual property and avoid infringing the intellectual property of others;
- the timing and quantities of our customers' purchases of our products, which may be affected by factors out of our control including, among others, their budget constraints; and
- the outcome and cost of possible litigation over patents with third parties.

***We are an international business, and we are exposed to various global risks that could have a material adverse effect on our financial condition and results of operations.***

As an international business, which operates in multiple jurisdictions, we are exposed to trends and financial risks of international markets, and are also required to comply with varying legal and regulatory requirements in such multiple jurisdictions. Profitability from international operations may be limited by risks and uncertainties related to regional economic conditions, regulatory and reimbursement approvals, and our ability to implement our overall business strategy in various jurisdictions. We expect these risks will increase as we pursue our strategy to expand operations into new geographic markets. We may not succeed in developing and implementing effective policies and strategies in each location where we conduct business. Any failure to do so may harm our business, results of operations and financial condition.

International sales and operations are subject to a variety of risks, including:

- foreign currency exchange rate fluctuations;
- potential adverse changes in laws and regulatory practices, including export license requirements, trade barriers, tariffs and tax laws;
- burdens and costs of compliance with a variety of foreign laws;
- foreign tax laws and potential increased costs associated with overlapping tax structures;
- greater difficulty in staffing and managing foreign operations;
- greater risk of uncollectible accounts;
- longer collection cycles;
- logistical and communications challenges;
- changes in labor conditions;
- political and economic instability;
- greater difficulty in protecting intellectual property;
- the risk of third party disputes over ownership of intellectual property and infringement of third party intellectual property by our products; and
- general economic and political conditions in these foreign markets.

International markets are also affected by economic pressure to contain reimbursement levels and healthcare costs. Profitability from international operations may be limited by risks and uncertainties related to regional economic conditions, regulatory and reimbursement approvals, competing products, infrastructure development, intellectual property rights protection and our ability to implement our overall business strategy. We expect these risks will increase as we pursue our strategy to expand operations into new geographic markets. We may not succeed in developing and implementing effective policies and strategies in each location where we conduct business. Any failure to do so may harm our business, results of operations and financial condition.

***Exchange rate fluctuations, primarily between the dollar and the NIS, may negatively affect our liquidity, financial condition and results of operation.***

We currently generate a substantial portion of our revenues in dollars whereas we currently incur a significant portion of our expenses in other currencies, predominantly NIS. Since our functional and reporting currency is the dollar, our financial results may be affected by fluctuations in the exchange rates of currencies in the countries in which we transact business. For example, during 2017, we witnessed a strengthening of the average exchange rate of the NIS against the dollar, which increased the dollar value of Israeli expenses. If the NIS strengthens against the dollar, as it did in 2017, the dollar value of our Israeli expenses, mainly personnel and facility-related, will increase. While we engage, from time to time, in currency hedging transactions intended to reduce the effect of fluctuations in foreign currency exchange rates on our results of operations, we cannot guarantee that such measures will adequately protect us against currency fluctuations in the future. Although exposure to currency fluctuations to date has not had a material adverse effect on our business, there can be no assurance such fluctuations in the future will not have a material adverse effect on our operating results and financial condition.

***Changing or severe global economic conditions may materially adversely affect our business.***

Our business and financial condition are affected by global economic conditions and their impact on levels of spending by customers, which may be disproportionately affected by economic downturns. The global economy is still subject to uncertainties surrounding its strength in many regions. For example, the recent escalating disagreements between the U.S. and certain European states, as well between the U.S. and China, with respect to placing tariffs and other trade barriers, may adversely affect international trade and we cannot predict the implications of such barriers on our business. Uncertainty about current global economic conditions continues to pose a risk as customers may postpone or reduce spending in response to restraints on credit. Should the economic slowdown resume and/or companies in our target markets reduce capital expenditures, it may cause our customers to reduce or postpone their spending significantly, which could result in reductions in sales of our products, longer sales cycles, slower adoption of new technologies and increased price competition. In addition, if the market is flat and customers experience low visibility we may not be able to increase our sales (whether direct sales or indirect sales through our distributors). Each of the above scenarios would have a material adverse effect on our business, operating results and financial condition.

***Our ability to retain and attract qualified senior management, including our President and Chief Executive Officer, as well as employees with the expertise required for our business is key to our success.***

Our success largely depends on our ability to retain and attract qualified senior management, in particular Mr. Gilad Glick, our President and Chief Executive Officer, who also acts as our VP marketing and as acting President and Chief Executive Officer of the U.S. Subsidiary, as well as on our ability to retain and attract qualified personnel, including personnel with expertise in research and development and sales and marketing, and to effectively provide for the succession of senior management. There is intense competition from numerous biotechnology, medical device and other companies seeking to employ qualified individuals in the business fields in which we operate, and we may not be able to attract and retain the qualified personnel necessary for the achievement of our business objectives.

We do not maintain life insurance on any of our personnel. Regardless, the loss of senior management employees, the failure of any senior management employee to perform or our inability to attract and retain skilled employees, as needed, or an inability to effectively plan for and implement a succession plan for senior management could harm our business. In particular, the loss of the services of Mr. Glick could result in a significant loss in the knowledge and experience that we possess and could significantly delay or prevent successful implementation of our business objectives.

***Under applicable employment laws, we may not be able to enforce covenants not to compete.***

Our employment agreements generally include covenants not to compete. These agreements prohibit our employees, if they cease working for us, from competing directly with us or working for our competitors for a limited period. We may be unable to enforce these agreements under the laws of the jurisdictions in which our employees work. For example, Israeli courts have required employers seeking to enforce covenants not to compete to demonstrate that the competitive activities of a former employee will harm one of a limited number of material interests of the employer, such as the secrecy of a company's confidential commercial information or the protection of its intellectual property. If we cannot demonstrate that such an interest will be harmed, we may be unable to prevent our competitors from benefiting from the expertise of our former employees or consultants and our competitiveness may be diminished, which could materially adversely affect our business, results of operations and ability to capitalize on our proprietary information.

***We may face both reputational and SEC enforcement risks with respect to conflict minerals obligations.***

Upon the listing of our ADSs on the Nasdaq Capital Market, we will become subject to disclosure requirements under section 102 of the Dodd-Frank Wall Street Reform and Consumer Protection Act regarding the source of certain minerals for which such conflict minerals are necessary to the functionality or production of a product manufactured, or contracted to be manufactured which are mined from the Democratic Republic of Congo, and adjoining countries, including: Angola, Burundi, Central African Republic, the Republic of the Congo, Rwanda, South Sudan, Tanzania, Uganda, and Zambia. These rules require reporting companies to file a conflict minerals report as an exhibit to a Form SD report with the SEC. The conflict minerals report is required to set out the due diligence efforts and procedures exercised on the source and chain of custody of such conflict minerals, in accordance with internationally recognized due diligence framework, and a description of our products containing such conflict minerals. Although we expect that we will be able to comply with the SEC rules and timely file our initial Form SD report with the SEC, in preparing to do so we are dependent upon information supplied by certain suppliers of products that contain, or potentially contain, conflict minerals. Such preparation may be costly. To the extent that the information that we receive from our suppliers is inaccurate or inadequate or our processes in obtaining that information do not fulfill the SEC's requirements, we could face both reputational and SEC enforcement risks.

***Cyber security attacks or breaches of our data could adversely affect our reputation and business.***

Risks to cyber security and privacy, including the activities of criminal hackers, hacktivists, state-sponsored intrusions, industrial espionage, employee malfeasance and human or technological error are constantly evolving. Computer hackers' and others routinely attempt to breach the security of high profile companies, governmental agencies, technology products, services and systems.

A cyber incident is considered to be any event that threatens the confidentiality, integrity or availability of information resources. More specifically, a cyber incident is an intentional attack or an unintentional event that can include gaining unauthorized access to IT systems to disrupt operations, corrupt data or steal confidential information.

In the ordinary course of our business, we collect and store personal, financial, proprietary and other confidential information related to our business, employees, customers and partners on our IT systems. We rely on said systems to manage our business, operations and research and development and, in some cases, to provide services to our customers. For example, sensitive data is stored using our CloudPAT platform. This includes, where required or permitted by applicable laws, personally identifiable information. Certain third parties with whom we collaborate with also collect and store such data. The secure maintenance of this information is important to our operations and business strategy. Despite security measures employed by us, our information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions. Any such breach could compromise information stored on our networks or those of our partners.

We are subject to strict data privacy laws and regulations in the U.S., European Union and other jurisdictions in which we operate, governing the collection, transmission, storage and use of data and personally identifying information, such as the Health Insurance Portability and Accountability Act, or HIPAA, in the U.S. and the General Data Protection Regulation, or the GDPR, in Europe. Any breach, unauthorized access, disclosure or other loss of information could result in legal claims or proceedings, liability under data privacy laws and regulations, disruption of our operations, including delays in our regulatory approval efforts, criminal penalties or civil liabilities, any of which would damage our reputation and adversely affect our business. See also below under "Risks Related to Our Industry - Privacy regulations may impose costs and liabilities on us, limit our use of information, and adversely affect our business."

We can provide no assurance that our current IT systems are fully protected against cyber security threats. Even when a security breach is detected, the full extent of the breach may not be determined immediately. An increasing number of companies have disclosed security breaches of their IT systems and networks. We believe such incidents are likely to continue, and we are unable to predict the direct or indirect impact of these future attacks on us. In addition, although we maintain cyber-security insurance that we believe is appropriate, this insurance is subject to deductibles and coverage limitations and there can be no assurances that our insurance coverage will be sufficient, or that insurance proceeds will be paid to us in a timely manner.

***Consolidation in the healthcare industry or group purchasing organizations could lead to demands for price concessions.***

Healthcare costs have risen significantly over the past decade, which has resulted in or led to numerous cost reform initiatives by legislators, regulators and third-party payors. Cost reform may also trigger a consolidation trend in the healthcare industry to aggregate purchasing power, which may create more requests for pricing concessions in the future. Additionally, group purchasing organizations, independent delivery networks and large single accounts may continue to use their market power to consolidate purchasing decisions for hospitals and our other targeted customers. We expect that market demand, government regulation, third-party coverage and reimbursement policies and social pressures will continue to change the healthcare industry worldwide, resulting in further business consolidations and alliances among our customers, which may exert further downward pressure on the prices of our products.

***We face risks associated with acquisition of businesses and technologies.***

As part of our growth strategy, we intend to evaluate and may pursue acquisitions of, or significant investments in, complementary companies or technologies to increase our technological capabilities and expand our product offerings. Acquisitions and the successful integration of new technologies, products, assets or businesses that we may acquire in the future, will require significant attention from our management and could result in a diversion of resources from our existing business, which in turn could have an adverse effect on our business operations. Other risks typically encountered with acquisitions include disruption of our ongoing business; difficulties in integration of the acquired operations and personnel; inability of our management to maximize our financial and strategic position by the successful implementation or integration of the acquired technology into our product offerings; being subject to known or unknown contingent liabilities, including taxes, expenses and litigation costs; and inability to realize expected synergies or other anticipated benefits which may, among other things, also lead to goodwill impairments or other write offs. We cannot assure you that we will be successful in overcoming these risks or any other problems we may encounter in connection with potential future acquisitions. Our inability to successfully integrate the operations of an acquired business, including a successful implementation of the technologies we acquire, and realize anticipated benefits associated with an acquisition, could have a material adverse effect on our business, financial condition, results of operations and cash flows. Acquisitions or other strategic transactions may also result in dilution to our existing shareholders if we issue additional equity securities as consideration or partial consideration as well as in the incurrence of indebtedness if we borrow funds to finance such transactions.

**Risks Related to Our Intellectual Property**

***We depend on our intellectual property, and our future success is dependent on our ability to protect our intellectual property and not infringe on the rights of others.***

Our success depends, in part, on our ability to obtain patent protection for our products, protect against any infringement or misuse of our trademarks, maintain the confidentiality of our trade secrets and know how, operate without infringing on the proprietary rights of others and prevent others from infringing our proprietary rights. We try to protect our proprietary rights by, among other things, filing world-wide patent applications related to our products, inventions and improvements that may be important to the continuing development of our products and applying for the registration of our trademark in certain geographic locations in which we operate. However, we cannot assure you that:

- any of our future processes or products will be patentable;
- our processes or products will not infringe upon the patents of third parties;
- our patents will protect us worldwide; or
- we will have the resources to defend against charges of patent infringement or other violation or misappropriation of intellectual property by third parties or to protect our own intellectual property rights against infringement, misappropriation or violation by third parties.

Because the patent position of medical device companies involves complex legal and factual questions, we cannot predict the validity and enforceability of patents with certainty. Our issued patents may not provide us with any competitive advantages, may be held invalid or unenforceable as a result of legal challenges by third parties or could be circumvented. Our competitors may also independently develop formulations, processes and technologies or products similar to ours or design around or otherwise circumvent patents issued to, or licensed by, us. Thus, any patents that we own or license from others may not provide adequate protection against competitors. Our pending patent applications, those we may file in the future or those we may license from third parties may not result in patents being issued. If these patents are issued, they may not provide us with proprietary protection or competitive advantages. The degree of future protection to be afforded by our proprietary rights is uncertain because legal means afford relatively limited protection and may not adequately protect our rights or permit us to gain or keep our competitive advantage.

After the completion of development and registration of our patents, third parties may still manufacture or market our products despite our patent protected rights. Such infringement of our patent protected rights is likely to cause us damage and lead to a reduction in the prices of our products, thereby reducing our anticipated profits.

In addition, due to the extensive time needed to develop, test and obtain regulatory approval for our products, any patents that protect our products may expire early during commercialization. For example, our original U.S. patent and corresponding international patents, covering our PAT-based technology and certain embodiments thereof expired during 2017. Since our products have undergone substantial development since then, we believe they should be protected by newer supplemental patents. However, we cannot be sure that these patents will be commercially useful in protecting our technology and, even if they are, such patents are scheduled to expire between 2021 and 2037. This may reduce or eliminate any market advantages that such patents may give us. Following patent expiration, we may face increased competition through the entry of competing products into the market and a subsequent decline in market share and profits.

***International patent protection is particularly uncertain, and if we are involved in opposition proceedings in foreign countries, we may have to expend substantial sums and management resources.***

Patent rights are territorial; thus, the patent protection we currently have will extend only to those countries in which we have issued patents. Even so, the laws of certain countries do not protect our intellectual property rights to the same extent as do the laws of the United States and the European Union. For example, certain countries do not grant patent claims that are directed to the treatment of humans. Competitors may successfully challenge our patents, produce similar devices that circumvent and do not infringe our patents, or manufacture devices in countries where we have not applied for patent protection or that do not respect our patents. Furthermore, it is difficult to predict the scope of claims that will be allowed in published applications and it is also difficult to predict which claims of granted patents, if any, will be deemed enforceable in a court of law. We may participate in opposition proceedings to determine the validity of our foreign patents or our competitors' foreign patents, which would result in substantial costs and diversion of our management's efforts, thus adversely affecting our results of operations.

***If we are unable to protect the confidentiality of our trade secrets or know-how, such proprietary information may be used by others to compete against us.***

In addition to filing patents, we protect our trade secrets, know-how and technology by entering into confidentiality or non-disclosure agreements with parties that have access to our proprietary information, such as our development or commercialization partners, employees, contractors and consultants. We also enter into agreements that purport to require the disclosure and assignment to us of the rights to the ideas, developments, discoveries and inventions of our employees, advisors, research collaborators, contractors and consultants while we employ or engage them. However, these agreements can be difficult and costly to enforce or may not provide adequate remedies. Any of these parties may breach the confidentiality agreements and willfully or unintentionally disclose our confidential information, or our competitors might learn of the information in some other way. The disclosure to, or independent development by, a competitor of any trade secret, know-how or other technology not protected by a patent could materially adversely affect any competitive advantage we may have over any such competitor.

To the extent that any of our employees, advisors, research collaborators, contractors or consultants independently develop, or use independently developed, intellectual property in connection with any of our projects, disputes may arise as to the proprietary rights to this type of information. If a dispute arises with respect to any proprietary right, enforcement of our rights can be costly and unpredictable and a court may determine that the right belongs to a third party, which could materially adversely affect our business, results of operations and ability to capitalize on our proprietary information.

***Legal proceedings or third-party claims of intellectual property infringement and other challenges may require us to spend substantial time and money and could prevent us from developing or commercializing our products.***

The development, manufacture, use, sale or importation of our products may infringe third-party patents or other intellectual property rights. The nature of claims contained in unpublished patent filings around the world is unknown to us and it is not possible to know which countries patent holders may choose for the extension of their filings under the Patent Cooperation Treaty, or other mechanisms. We may also be subject to claims based on the actions of employees and consultants with respect to the usage or disclosure of intellectual property learned at other employers. The cost to us of any intellectual property litigation or other infringement proceeding, even if resolved in our favor, could be substantial. Some of our competitors may be able to sustain the costs of such litigation or proceedings more effectively because of their greater financial resources. Uncertainties resulting from the initiation and continuation or defense of intellectual property litigation or other proceedings could have a material adverse effect on our ability to compete in the marketplace. Intellectual property litigation and other proceedings may also absorb significant financial resources and management time. Consequently, there is no assurance that we will be able to develop or commercialize in line with our business objectives, in the event of an infringement action.

In the event of patent infringement claims, or to avoid potential claims, we may choose or be required to seek a license from a third party and would most likely be required to pay license fees or royalties, or both. These licenses may not be available on acceptable terms, or at all. Even if we were able to obtain a license, the rights may be non-exclusive, which could potentially limit our competitive advantage. Ultimately, we could be prevented from completing the development or commercialization of a product if, as a result of actual or threatened patent infringement or other claims, we are unable to enter into licenses on acceptable terms. This inability to enter into licenses could harm our business significantly.

***We may become subject to claims for remuneration or royalties for assigned service invention rights by our employees, which could result in litigation and adversely affect our business.***

A significant portion of our intellectual property has been developed by our employees in the course of their employment for us. Under the Israeli Patent Law, 1967, or the Patent Law, inventions conceived by an employee in the course and as a result of or arising from his or her employment with a company are regarded as “service inventions”, which belong to the employer, absent a specific agreement between the employee and employer giving the employee service invention rights. The Patent Law also provides that if there is no agreement between an employer and an employee regarding consideration for service inventions, the Israeli Compensation and Royalties Committee, or the Committee, a body constituted under the Patent Law, shall determine whether the employee is entitled to remuneration for his inventions. Prior decisions by the Committee (in which the Israeli Supreme Court refused to intervene on appeal), created uncertainty, as it was held that employees may be entitled to remuneration for their service inventions despite having waived any such rights. However, more recent decisions by the Committee held that such right can be waived by the employee. The Committee further held that an explicit reference to the waived right is not necessary in every circumstance in order for the employee’s waiver of such right to be valid. Such waiver can be formalized in writing or orally or be implied by the actions of the parties in accordance with the rules of interpretation of Israeli contract law. However, the Israeli Supreme Court’s position on this matter remains uncertain. We generally enter into assignment-of-invention agreements with our employees pursuant to which such individuals assign to us all rights to any inventions created in the scope of their employment or engagement with us, without further compensation. Although our employees have agreed to assign to us service invention rights and have specifically waived their right to receive any special remuneration for such assignment beyond their regular salary and benefits, we may face claims demanding remuneration in consideration for assigned inventions. If such claims are successful we may be required to pay remuneration to our employees which could negatively affect our results of operations.

#### **Risks Related to our Industry**

***Our ability to market and sell products depends upon receipt of domestic and foreign regulatory approvals of our products and manufacturing operations. Our failure to obtain or maintain regulatory approvals and compliance could negatively affect our business.***

Our products and manufacturing operations are subject to extensive regulation by governmental authorities such as the FDA in the U.S., the European Union National Competent Authorities, or NCAs of the Member States of the European Economic Area, or EEA, and numerous other national or state governmental authorities in the countries in which we manufacture and sell our products. These regulations govern, among other things: the research, testing, manufacturing, safety, clinical efficacy, effectiveness and performance, product standards, packaging requirements, labeling requirements, import/export restrictions, storage, recordkeeping, promotion, distribution, production, post marketing surveillance and handling of complaints, tariffs, duties and tax requirements. Our products and operations are also often subject to the rules or norms of industrial standards bodies, such as the International Standards Organization, or ISO, or the rules of associations of healthcare professionals.

In the U.S., our products are subject to regulation by the FDA pursuant to its authority under the federal Food, Drug and Cosmetic Act, or the FDCA, and its implementing regulations. In addition, future products, or components thereof, may also be subject to regulation by the Federal Communications Commission, or the FCC. Many of the laws and regulations applicable to our products in other countries, such as the new EU Medical Devices Regulation, or the MDR, are generally comparable to those of the FDCA in their aim to ensure safety and effectiveness of medical devices, but the applicable standards and proceedings are not globally harmonized. Such regulations are subject to continuous revision, which may entail increased requirements, and, more generally, there appears to be a trend toward more stringent regulatory oversight throughout the world. We do not anticipate this trend to diminish in the near future. Due to the movement towards harmonization of standards in the European Union, we expect a changing regulatory environment in Europe characterized by a shift from a country-by-country regulatory system to a European Union-wide harmonized regulatory system, while such harmonized regulatory system would not necessarily preclude state specific requirements which we may have to comply with. The timing of this harmonization and its effect on us cannot currently be predicted. The changing regulatory environment may have a material impact on existing device marketing authorizations as well as future device registration applications, requirements and timings, which may, in turn, have material impacts upon our ability to continue or begin to market existing and new devices. Our failure to obtain or maintain regulatory approvals and compliance could negatively affect our business.



***Modifications to our currently FDA-cleared products or the introduction of new products may require new regulatory clearances or approvals or require us to recall or cease marketing of our current products until clearances or approvals are obtained.***

In general, unless an exemption applies, each medical device to be marketed in the U.S. must first receive one of the following types of FDA premarket review authorizations:

- clearance via Section 510(k) of the FDCA; or
- premarket approval via Section 515 of the FDCA if the FDA has determined that the medical device in question poses a greater risk of injury. The applicant may also submit a De novo application, in which case the regulator shall determine whether the device shall be classified from class III to class II or class I, with new classification or regulation.

Generally, all of our products (excluding one exempt product) received a 510(k) clearance. The FDA will clear marketing of a medical device through the 510(k) process if it is demonstrated that the new product is substantially equivalent to other 510(k)-cleared products. The premarket approval application process is much more costly, lengthy and uncertain than the 510(k) process, and must be supported by extensive data from clinical trials. The FDA may not grant either 510(k) clearance or premarket approval for any product we propose to market. Further, any modification to a 510(k)-cleared device that could significantly affect its safety or effectiveness, or that would constitute a major change in its intended use, design or manufacture, requires a new 510(k) clearance or, possibly, approval of a premarket approval application. The FDA requires every manufacturer to make this determination in the first instance, but the FDA may review any manufacturer's decision. If the FDA requires us to seek 510(k) clearance or premarket approval for modification of a previously cleared product for which we have concluded that new clearances or approvals are unnecessary, we may be required to cease marketing or to recall the modified product until we obtain clearance or approval, and we may be subject to significant regulatory fines or penalties. Further, our products could be subject to recall if the FDA determines, for any reason, that our products are not safe or effective.

The application process to receive clearances or approvals of our products by the pertinent regulatory authorities is costly and generally lasts between approximately three to twenty four months. Delays in receipt of, or failure to receive, clearances or approvals, the loss of previously received clearances or approvals, or the failure to comply with existing or future regulatory requirements could adversely impact our operating results. If the FDA or a foreign regulatory authority finds that we have failed to comply with these requirements, such authority may institute a wide variety of enforcement actions, ranging from a public warning letter to more severe sanctions such as:

- fines, injunctions and civil penalties;
- recall or seizure of our products;
- issuance of public notices or warnings;
- imposition of operating restrictions, partial suspension, or total shutdown of production;
- refusal of our requests for Section 510(k) clearance or premarket approval of new products;
- withdrawal of Section 510(k) clearance or premarket approvals already granted; or
- criminal prosecution.

Countries outside of the U.S. regulate medical devices in a manner similar to that of the FDA. The marketing and distribution of our products in the European Union, for example, is subject to the European Union's Medical Device Directive described above. Devices that comply with the requirements of the Medical Devices Directive are entitled to bear the CE conformity mark, or the CE Mark, indicating that the device meets minimum standards of performance, safety and quality (i.e., the essential requirements) and, accordingly, can be commercially distributed throughout the EEA, Turkey and other countries outside Europe that have accepted the CE marking as a certification of efficiency and safety of medical devices. In Japan, we must comply with Japans Pharmaceuticals and Medical Devices Act, or the PMD Act, and are subject to the Pharmaceutical Medical Devices Authority, or the PMDA, the regulatory body supervising and regulating the marketing and sale of medical devices such as our products. We currently hold PMDA authorizations to market and sell our WatchPAT200/U and Endo PAT 2000 in Japan. Such authorizations are held by a local MAH/D-MAH with whom we maintain a contractual engagement.

Even though we have received FDA clearance, CE Mark certification, PMDA authorizations and other regulatory approvals for our products, there can be no assurance that we will be able to continue to comply with the required annual auditing requirements or other international regulatory requirements that may be applicable. For example, we must comply with medical device reporting, or MDR, requirements, including the reporting of adverse events and malfunctions related to our products. Adverse events, manufacturing faults, or failures to comply with regulatory requirements may result in voluntary actions as well as actions imposed by regulators, such as voluntary or mandatory recalls, a requirement to repair, replace or refund the cost of any medical device we manufacture or distribute, fines, suspension of regulatory clearances or approvals, product seizures, injunctions or the imposition of civil or criminal penalties which would adversely affect our business, operating results and prospects.

In addition, there can be no assurance that government regulations applicable to our products or the interpretation of those regulations will not change or that we will be able to obtain required regulatory approvals for our new products. The extent of potentially adverse government regulation that might arise from future legislation or administrative action and the impact on our business and results of operations cannot be predicted.

***We expect the healthcare industry to face increased limitations on reimbursement as a result of healthcare reform, which could adversely affect third-party coverage of our products and how much or under what circumstances healthcare providers will prescribe or administer our products.***

In both the United States and other countries, sales of our products will depend in part upon the availability of reimbursement from third-party payors, which include governmental authorities, managed care organizations and other private health insurers. Third-party payors are increasingly challenging the price and examining the cost effectiveness of medical products and services.

Increasing expenditures for healthcare have been the subject of considerable public attention in the United States. Both private and government entities are seeking ways to reduce or contain healthcare costs. Numerous proposals that would effect changes in the U.S. healthcare system have been introduced or proposed in Congress and in some state legislatures, including reducing reimbursement for prescription products.

In the U.S., President Obama signed into law in 2010 the Patient Protection and Affordable Care Act and the Health Care and Education Affordability Reconciliation Act of 2010 designed to reform the American healthcare system. However, in 2017, President Trump signed an executive order in anticipation of a repeal or partial repeal of the 2010 Patient Protection and Affordable Care Act and introduced the American Health Care Act, or the AHCA, which was passed in the House of Representatives and was introduced to the Senate, where it has been the subject of extensive debate. It is difficult to assess the full long-term impact of proposed healthcare reforms stemming from the AHCA, if signed into law, and other proposals, on our business. However, certain adverse effects of such reforms may include imposition of new taxes on medical device providers, and a decrease in our products' pricing. It is uncertain at this point what negative consequences these provisions may have on patient access to new technologies. We cannot predict the nature of healthcare programs and regulations which will ultimately be implemented at the federal or state level, or the effect of any future legislation or regulation on our results of operations. However, any regulatory changes that lower reimbursement for our products or reduce medical procedure volumes could adversely affect our business and results of operations.

Although we cannot predict the full effect on our business of the implementation of existing legislation, including the Affordable Care Act or the enactment of additional legislation, we believe that legislation or regulations that reduce reimbursement for, or restrict coverage of our products could adversely affect how much or under what circumstances healthcare providers will prescribe or administer our products. This could materially and adversely affect our business by reducing our ability to generate revenue, raise capital, obtain additional collaborators and market our products. In addition, we believe the increasing emphasis on managed care in the United States has and will continue to put pressure on the price and usage of pharmaceutical products, which may adversely impact our product sales.

***We may be subject to U.S. and foreign anti-kickback laws and regulations. Our failure to comply with these laws and regulations could have adverse consequences.***

There are extensive U.S. federal and state laws and regulations prohibiting fraud and abuse in the healthcare industry that can result in significant criminal and civil penalties. These federal laws include: the anti-kickback statute, which prohibits certain business practices and relationships, including the payment or receipt of remuneration for the referral of patients whose care will be paid by Medicare or other federal healthcare programs; the physician self-referral prohibition, commonly referred to as the Stark Law; the anti-inducement law, which prohibits providers from offering anything to a Medicare or Medicaid beneficiary to induce that beneficiary to use items or services covered by either program; the False Claims Act, which prohibits any person from knowingly presenting or causing to be presented false or fraudulent claims for payment by the federal government, including the Medicare and Medicaid programs; and the Civil Monetary Penalties Law, which authorizes the U.S. Department of Health and Human Services to impose civil penalties administratively for fraudulent or abusive acts.

Sanctions for violating these federal laws include criminal and civil penalties that range from punitive sanctions, damage assessments, money penalties, imprisonment, denial of Medicare and Medicaid payments, or exclusion from the Medicare and Medicaid programs, or both, and debarment. As federal and state budget pressures continue, federal and state administrative agencies may also continue to escalate investigation and enforcement efforts to root out waste and to control fraud and abuse in governmental healthcare programs. Private enforcement of healthcare fraud has also increased, due in large part to amendments to the civil False Claims Act in 1986 that were designed to encourage private persons to sue on behalf of the government. A violation of any of these federal and state fraud and abuse laws and regulations or any similar law in a different jurisdiction which is applicable to us could have a material adverse effect on our liquidity and financial condition. An investigation into the use by physicians of any of our products once commercialized may dissuade physicians from either purchasing or using them, and could have a material adverse effect on our ability to commercialize those products.

***Privacy regulations may impose costs and liabilities on us, limit our use of information, and adversely affect our business.***

Our products generate medical information about patients and certain of our services are provided by way of a cloud service. Personal privacy has become a significant issue in the United States, Europe, Israel and many other countries where we operate. Many federal, state, and foreign legislatures and government agencies have imposed or are considering imposing restrictions and requirements about the collection, use, safeguarding and disclosure of personal information obtained from individuals.

In the U.S. the privacy rule established under HIPAA sets forth national standards to protect patients' medical records and other personal health information and applies, among others, to health-care providers. The said rule requires appropriate safeguards to protect the privacy of personal health information and sets limits and conditions on the permissible uses and disclosures of such information. Said rule also provides patients with certain rights over their health information, including rights to examine and obtain a copy of their health records, and to request corrections. In May 2018, the GDPR came into force in the EU and in June 2018, in the EEA. GDPR is designed to set forth a harmonized framework for the regulations of privacy across the EU and EEA, while it also allows members states to enact state specific requirements. The provisions of the GDPR set forth requirements as to the permitted uses and disclosures of personal information, including personal medical information and appropriate safeguards to protect the privacy and security of such information. While the interpretation of the GDPR by European regulators remains to be seen and the full impact of such regulation is difficult to assess at this time, the GDPR may impose on us additional compliance costs and limitations on how we store and use information. In addition, we may be subject to requests for information, amendments of personal information records, data portability requests or law suits, from data subject in Europe. The maximum sanctions under the GDPR are the higher of 20 million Euros and 4% of a company's worldwide annual revenues.

Changes to laws or regulations affecting privacy in the U.S. and in other locations we operate in could impose additional costs and liability on us and could limit our use of such information to add value to our customers. If we were required to change our business activities or revise or eliminate services, or to implement burdensome compliance measures, we may face additional expenditures. In addition, we may be subject to fines, penalties, and potential litigation if we fail to comply with applicable privacy regulations. Regulatory burdens of this sort increase our costs and harm our financial results.

***We are subject to various laws relating to trade, export controls, and foreign corrupt practices, the violation of which could adversely affect our reputation, operations, business, prospects, operating results and financial condition.***

We must comply with all applicable international trade, export and import laws and regulations of the United States and other countries, and we are subject to export controls and economic sanctions laws and embargoes imposed by the U.S. Government. Changes in trade sanctions laws may restrict our business practices, including cessation of business activities in sanctioned countries or with sanctioned entities, and may result in modifications to compliance programs. Among others, we are subject to the Foreign Corrupt Practices Act, or the FCPA, and other anti-bribery and anti-corruption laws that generally prohibit the offering, promising, giving, or authorizing others to give anything of value, either directly or indirectly, to a non-U.S. government official in order to influence official action, or otherwise obtain or retain business. The FCPA also requires public companies to make and keep books and records that accurately and fairly reflect the transactions of the corporation and to devise and maintain an adequate system of internal accounting controls.

Our business is heavily regulated and therefore involves significant interaction with public officials, including officials of non-U.S. governments. We have implemented safeguards and policies to discourage prohibited practices by our employees and agents that would violate applicable anti-bribery and anti-corruption laws. However, we cannot ensure that our compliance controls, policies, and procedures will in every instance protect us from acts committed by our employees, agents, contractors, or collaborators that may violate the laws or regulations of the jurisdictions in which we operate.

Violations of these laws and regulations could result in significant fines, criminal sanctions against us, our officers, or our employees, requirements to obtain export licenses, disgorgement of profits, cessation of business activities in sanctioned countries, implementation of compliance programs, exclusion from government programs, prohibitions on the conduct of our business, and our inability to market and sell our products in one or more countries. Additionally, any such violations could materially damage our reputation, our brand, our international expansion efforts, our ability to attract and retain employees, and our business, prospects, operating results, and financial condition.

***If we do not comply with laws regulating the protection of the environment and health and human safety, our business could be adversely affected.***

Our research and development and manufacturing involve the use of hazardous materials and chemicals and related equipment. If an adverse safety incident occurs, we could be held liable for resulting damages, which could be substantial. We are also subject to numerous environmental, health and workplace safety laws and regulations, including those governing laboratory procedures and the handling of biohazardous materials. Insurance may not provide adequate coverage against these potential liabilities and we do not maintain insurance for environmental liability claims that may be asserted against us. Moreover, additional foreign and local laws and regulations affecting our operations may be adopted in the future. We may incur substantial costs to comply with such regulations and pay substantial fines or penalties if we violate any of these laws or regulations.

With respect to environmental, safety and health laws and regulations, we cannot accurately predict the outcome or timing of future expenditures that we may be required to make in order to comply with such laws as they apply to our operations and facilities. We are also subject to potential liability for the remediation of contamination associated with both present and past hazardous waste generation, handling, and disposal activities. We will be periodically subject to environmental compliance reviews by environmental, safety, and health regulatory agencies. Environmental laws are subject to change and we may become subject to stricter environmental standards in the future and face larger capital expenditures in order to comply with environmental laws which could have a material adverse effect on our business.

### **Risks Related to Our Ordinary Shares and ADSs**

***Prior to the listing of our ADSs there has been no prior public market in the United States for our ordinary shares and ADSs, and an active trading market in the United States may not develop.***

We listed our ADSs on the Nasdaq Capital Market in February 2019. Prior to such listing, there has been no public market in the United States for our ordinary shares and ADSs. An active trading market in the United States may not develop following the aforementioned listing or, if developed, may not be sustained. The lack of an active market may impair the ability of our shareholders to sell their shares at the time they wish to sell them or at a price that they would consider reasonable. The lack of an active market may also reduce the fair market value of such shares. An inactive market may also impair our ability to raise capital by selling shares of capital stock and may impair our ability to acquire other companies by using our shares as consideration.

***Our ADSs and ordinary shares are traded on different markets and this may result in price variations.***

Our ordinary shares have been traded on the Tel Aviv Stock Exchange Ltd., or the TASE, since March 2007. We also listed our ADSs on the Nasdaq Capital Market in February 2019. Price variations may result due to this dual listing. Trading in our ordinary shares and ADSs on these markets is in different currencies, dollars on the Nasdaq Capital Market and NIS on the TASE and at different times (resulting from different time zones, different trading days and different public holidays in the United States and Israel). Given these and other factors, such as differences in exchange rates, our ordinary shares and ADSs may trade at different prices on the TASE and the Nasdaq Capital Market. In addition, market influences in one market may influence the price at which our shares are traded on the other.

***Our share price may be volatile and could be substantially affected by various factors.***

The market price of our ordinary shares and ADSs could be highly volatile and may fluctuate substantially. Numerous factors, many of which are beyond our control, may cause our market price and trade volume to fluctuate and decrease in the future, including the following factors:

- actual or anticipated fluctuations in our results of operations;
- changes in expectations as to our future financial performance and cash position, including financial estimates by securities analysts and investors;
- announcements of technological innovations, medical findings or new products by us or our competitors;
- announcements by us or our competitors of significant business developments, changes in distributor relationships, strategic partnerships, joint ventures, capital commitments, acquisitions or expansion plans;
- changes in the prices of our raw materials or the products we sell;

- changes in the status of our intellectual property rights;
- our involvement in significant claims or proceedings;
- our sales of ordinary shares and ADSs or other securities in the future;
- market conditions in our industry;
- changes in key personnel;
- the trading volume of our ordinary shares and ADSs;
- changes in the estimation of the future size and growth rate of our markets;
- general economic and market conditions; and
- any of the events underlying any of the other risks or uncertainties set forth elsewhere in this annual report actually occurs.

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 and ADSs, 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.

Low trading volume may also increase the price volatility of our ordinary shares and ADSs. A thin trading market could cause the price of our ordinary shares and ADSs to fluctuate significantly more than the stock market as a whole. In addition, domestic and international stock markets and electronic trading platforms often experience extreme price and volume fluctuations. Market fluctuations, as well as general political and economic conditions, such as a recession or interest rate or currency rate fluctuations or political events or hostilities in or surrounding Israel, could also adversely affect the price of our ordinary shares and ADSs.

***Holders of our ADSs are not treated as shareholders of our Company.***

Holders of our ADSs are not treated as shareholders of our Company unless they withdraw the ordinary shares underlying the ADSs from the depository, which holds the ordinary shares underlying the ADSs. Holders of ADSs therefore do not have any rights as shareholders of our Company, other than the rights that they have pursuant to the deposit agreement with the depository. For example, under the deposit agreement, if a holder of our ADSs does not provide the depository with voting instructions for an agenda item in our shareholders meeting in a timely manner, we may instruct the depository, if we reasonably do not know of any substantial opposition to such agenda item and the matter is not materially adverse to the interests of shareholders, to treat the holder as giving a discretionary proxy to a person designated by us as to that matter.

***Our directors and executive officers own a substantial percentage of our ordinary shares.***

As of March 17, 2019, our directors and executive officers beneficially own approximately 16.1% of our outstanding ordinary shares (or, when taken together with the holdings of Viola and MS Pace, which are associated with some of these directors, approximately 53.7% of our outstanding ordinary shares). As a result, if these shareholders acted together, they could exert significant influence on the election of our directors and on decisions by our shareholders on matters submitted to shareholder vote, including mergers, consolidations and the sale of all or substantially all of our assets. This concentration of ownership of our ordinary shares could delay or prevent proxy contests, mergers, tender offers or other purchases of our ordinary shares that might otherwise give our shareholders the opportunity to realize a premium over the then-prevailing market price for our ordinary shares and, as a result, may also adversely affect our share price.

***If equity research analysts do not publish research or reports about our business or if they issue unfavorable commentary or downgrade our ordinary shares and ADSs, the price of our ordinary shares and ADSs could decline.***

The trading market for our ordinary shares and ADSs will rely in part on the research and reports that equity research analysts publish about us and our business. The price of our ordinary shares and ADSs could decline if one or more securities analysts downgrade our ordinary shares and ADSs or if those analysts issue other unfavorable commentary or cease publishing reports about us or our business.

***As a foreign private issuer whose ADSs are listed on the Nasdaq Capital Market we intend to follow certain home country corporate governance practices instead of certain Nasdaq requirements.***

As a foreign private issuer whose ADSs are listed on the Nasdaq Capital Market, we are permitted to follow certain home country corporate governance practices instead of certain requirements of the Nasdaq rules. As permitted under the Companies Law, our articles of association provide that the quorum for any meeting of shareholders is 33 1/3% of the issued share capital, as required under Nasdaq requirements, however, if the meeting is adjourned for lack of quorum, the quorum for such adjourned meeting will be two shareholders who hold or represent between them at least 10% of the issued and outstanding share capital, instead of 33 1/3% of the issued share capital. We also intend to adopt and approve material changes to equity incentive plans in accordance with the Companies Law, which does not impose a requirement of shareholder approval for such actions. In addition, we intend to follow the Companies Law in respect of private placements (see under Item 10B. "Memorandum and Articles of Association – Private Placements") instead of Nasdaq requirements to obtain shareholder approval for certain dilutive events (such as issuances that will result in a change of control, certain transactions other than a public offering involving issuances of a 20% or greater interest in us 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 for domestic issuers.

Following our home country governance practices as opposed to the requirements that would otherwise apply to a U.S. company listed on the Nasdaq Capital Market may provide less protection than is accorded to investors of domestic issuers.

***As a "foreign private issuer" our disclosure and reporting requirements will be different than those of a U.S. domestic reporting company.***

In addition, 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. In addition, we will not be required under the Exchange Act to file annual, quarterly and current reports and financial statements with the Securities and Exchange Commission, or the SEC, as frequently or as promptly as domestic companies whose securities are registered under the Exchange Act.

***We will incur additional increased costs as a result of our listing of ADSs for trading on the Nasdaq Capital Market, and our management will be required to devote substantial time to compliance initiatives and reporting requirements associated therewith.***

As a public company in the United States, we will incur additional significant accounting, legal and other expenses as a result of the listing of our ADSs on the Nasdaq Capital Market. These include costs associated with corporate governance requirements of the SEC and the Marketplace Rules of Nasdaq, as well as requirements under Section 404 and other provisions of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act. These rules and regulations will increase our legal and financial compliance costs, introduce new costs such as those relating to investor relations, stock exchange listing fees and shareholder reporting, and make some activities more time consuming or costly, such as increased costs for directors' and officers' liability insurance. Any future changes in the laws and regulations affecting public companies in the United States and Israel, including Section 404 and other provisions of the Sarbanes-Oxley Act, the rules and regulations adopted by the SEC and the rules of Nasdaq, as well as applicable Israeli reporting requirements, for so long as they apply to us, will result in increased costs to us as we respond to such changes. These laws, rules and regulations could make it more difficult or more costly for us to obtain certain types of insurance, including director and officer liability insurance, and we may be forced to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. The impact of these requirements could also make it more difficult for us to attract and retain qualified persons to serve on our Board of Directors, our committees of our Board of Directors or as executive officers.

***If we are unable to satisfy the requirements of Section 404 as they apply to a foreign private issuer and emerging growth company that is listing on a U.S. exchange for the first time, or our internal controls over financial reporting are not effective, the reliability of our financial statements may be questioned and our share price may suffer.***

We are subject to the requirements of the Sarbanes-Oxley Act in light of the listing of our ADSs on the Nasdaq Capital Market. Section 404 of the Sarbanes-Oxley Act, or Section 404, requires companies subject to the reporting requirements of the U.S. securities laws to complete a comprehensive evaluation of its and its subsidiaries' internal controls over financial reporting. To comply with this statute, we will be required to document and test our internal control procedures and our management will be required to assess and issue a report concerning our internal controls over financial reporting. Pursuant to the Jumpstart Our Business Startups Act of 2012, or the JOBS Act, we will be classified as an "emerging growth company." Under the JOBS Act, emerging growth companies are exempt from certain reporting requirements, including the independent auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act. Under this exemption, our independent auditor will not be required to attest to and report on management's assessment of our internal controls over financial reporting during a five year transition period. We will need to prepare for compliance with Section 404 by strengthening, assessing and testing our system of internal controls to provide the basis for our report. However, the continuous process of strengthening our internal controls and complying with Section 404 is complicated and time-consuming. Furthermore, we believe that our business will grow both domestically and internationally, in which case our internal controls will become more complex and will require significantly more resources and attention to ensure our internal controls remain effective overall. During the course of its testing, our management may identify material weaknesses or significant deficiencies, which may not be remedied in a timely manner to meet the deadline imposed by the Sarbanes-Oxley Act. If our management cannot favorably assess the effectiveness of our internal controls over financial reporting, or our independent registered public accounting firm identifies material weaknesses in our internal controls, investor confidence in our financial results may weaken, and the market price of our securities may suffer.

***Our U.S. shareholders may suffer adverse tax consequences if we are characterized as a passive foreign investment company.***

Generally, if for any taxable year 75% or more of our gross income is passive income, or at least 50% of our assets are held for the production of, or produce, passive income, we would be characterized as a passive foreign investment company, or PFIC, for U.S. federal income tax purposes. Based on our gross income and gross assets and the nature of our business, we do not expect that we will be classified as a PFIC for the taxable year ending December 31, 2018. However, because PFIC status is based on our income, assets and activities for the entire taxable year, it is not possible to determine whether we will be characterized as a PFIC for the 2019 taxable year until after the close of the year. Moreover, we must determine our PFIC status annually based on tests which are factual in nature, and our status in future years will depend on our income, assets and activities in those years. Moreover, because the value of our gross assets may be determined in part by reference to our market capitalization, a decline in the value of our ordinary shares and ADSs may result in our becoming a PFIC. There can be no assurance that we will not be considered a PFIC for any taxable year. If we were to be characterized as a PFIC for U.S. federal income tax purposes in any taxable year during which a U.S. Holder, as defined in Item 10.E “Taxation —United States Federal Income Tax Consequences”, owns ordinary shares and ADSs, such U.S. Holder could face adverse U.S. federal income tax consequences, including having gains realized on the sale of our ordinary shares and ADSs classified as ordinary income, rather than as capital gain, the loss of the preferential rate applicable to dividends received on our ordinary shares and ADSs by individuals who are U.S. Holders, and having interest charges apply to distributions by us and the proceeds of share sales. Certain elections exist that may alleviate some of the adverse consequences of PFIC status and would result in an alternative treatment (such as mark-to-market treatment) of our ordinary shares and ADSs. Although we have no obligation to do so, we currently intend to notify U.S. Holders, if we believe we will be treated as a PFIC for any tax year in order to enable U.S. Holders to consider whether to elect to treat us as a qualified electing fund by making a so-called “QEF election”.

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

As of March 17, 2019, we had approximately 333.9 million ordinary shares issued and outstanding (including ordinary shares underlying our ADSs) and approximately 76.7 million of additional ordinary shares which are issuable upon exercise of outstanding warrants, stock options and vesting of outstanding restricted share units, or RSUs. The issuance of a significant amount of additional ordinary shares or ADSs on account of these outstanding securities will dilute our current shareholders’ holdings and may depress our share price.

If our existing shareholders and ADS holders or holders of our warrants, options or RSUs sell substantial amounts of our ordinary shares or ADSs, either on the TASE or Nasdaq, the market price of our ordinary shares and ADSs may be adversely affected. Any substantial sales of our ordinary shares or ADSs in the public market might also make it more difficult for us to sell equity or equity related securities in the future at a time and on terms we deem appropriate. Even if there are not a substantial number of sales, the mere existence of this “market overhang” could have a negative impact on the market for, and the market price of, our ordinary shares.

In May 2018, we issued a total of approximately 22.0 million ordinary shares to several investors, including several of our major shareholders (listed in Item 7.A under “Security Ownership of Certain Beneficial Owners and Management”). These shares are subject to resale restrictions under Israeli law as applicable to private placements, including an initial six-month full lockup resale restriction that expired in November 2018. In February and March 2019, we issued to several investors (the “2019 PIPE Investors”), including to one of our major shareholders (listed in Item 7.A under “Security Ownership of Certain Beneficial Owners and Management”), ADSs and ordinary shares representing a total of approximately 46.1 million ordinary shares. These ADSs and shares are subject to resale restrictions under U.S. and Israeli law as applicable to private placements. In addition, in 2015, in connection with the Viola Investment, we agreed to grant Viola, our largest shareholder, registration rights that require that we register under the Securities Act the resale of their shares into the public markets. The market price of our ordinary shares and ADSs may drop when the restrictions on resale by our existing shareholders lapse and these shareholders are able to sell our ordinary shares and ADSs into the market or, in the case of Viola, if Viola were to exercise its registration rights.

***Provisions of our Amended and Restated Articles of Association and Israeli law as well as the terms of some of our equity-based grants and our credit facility may delay, prevent or make difficult an acquisition of us, which could prevent a change of control and negatively affect the price of our ordinary shares and ADSs.***

Israeli corporate law regulates mergers, requires tender offers for acquisitions of shares above specified thresholds, requires special approvals for certain transactions involving directors, officers or significant shareholders and regulates other matters that may be relevant to these types of transactions. These provisions of Israeli law may delay, prevent or make difficult an acquisition of us, which could prevent a change of control and therefore depress the price of our shares. For example, under the Companies Law, upon the request of a creditor of either party to a proposed merger, the court may delay or prevent the merger if it concludes that there exists a reasonable concern that as a result of the merger the surviving company will be unable to satisfy the obligations of any of the parties to the merger. In addition, our executive officers and certain other key employees are entitled to certain benefits in connection with a change of control of our Company and our credit facility allows the bank to accelerate repayment of outstanding debt upon a change of control of our Company (see under “*Our freedom to operate our business is limited as a result of certain restrictive covenants contained in our credit facility*” above). These provisions could cause our ordinary shares to trade at prices below the price for which third parties might be willing to pay to gain control of us. Third parties who are otherwise willing to pay a premium over prevailing market prices to gain control of us may be unable or unwilling to do so because of these provisions of Israeli law.

Furthermore, Israeli tax considerations may make potential transactions unappealing to us or to our shareholders, especially for those shareholders whose country of residence does not have a tax treaty with Israel which exempts such shareholders from Israeli tax. For example, Israeli tax law does not recognize tax-free share exchanges to the same extent as U.S. tax law. With respect to mergers, Israeli tax law allows for tax deferral in certain circumstances but makes the deferral contingent on the fulfillment of a number of conditions, including, in some cases, a holding period of two years from the date of the transaction during which sales and dispositions of shares of the participating companies are subject to certain restrictions. 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 disposition of the shares has occurred.

***We have never paid cash dividends on our share capital, and we do not anticipate paying any cash dividends in the foreseeable future.***

We have never declared or paid cash dividends on our share capital, nor do we anticipate paying any cash dividends on our share capital in the foreseeable future. We currently intend to retain all available funds and any future earnings to fund the development and growth of our business. As a result, capital appreciation, if any, of our ordinary shares and ADSs will be investors’ sole source of gain for the foreseeable future. In addition, Israeli law limits our ability to declare and pay dividends, and may subject our dividends to Israeli withholding taxes. Furthermore, our payment of dividends (out of tax-exempt income) may retroactively subject us to certain Israeli corporate income taxes, to which we would not otherwise be subject.

***You may not receive dividends or other distributions on our ordinary shares and you may not receive any value for them, if it is illegal or impractical to make them available to you.***

The depository of our ADSs has agreed to pay you the cash dividends or other distributions it or the custodian receives on our ordinary shares or other deposited securities underlying our ADSs, after deducting its fees and expenses. You will receive these distributions in proportion to the number of ordinary shares your ADSs represent. However, the depository is not responsible if it decides that it is unlawful or impractical to make a distribution available to any holders of ADSs. For example, it would be unlawful to make a distribution to a holder of ADSs if it consists of securities that require registration under the Securities Act but that are not properly registered or distributed under an applicable exemption from registration. The depository may also determine that it is not feasible to distribute certain property through the mail. Additionally, the value of certain distributions may be less than the cost of mailing them. In these cases, the depository may determine not to distribute such property. We have no obligation to register under U.S. securities laws any ADSs, ordinary shares, rights or other securities received through such distributions. We also have no obligation to take any other action to permit the distribution of ADSs, ordinary shares, rights or anything else to holders of ADSs. This means that you may not receive distributions we make on our ordinary shares or any value for them if it is illegal or impractical for us to make them available to you. These restrictions may cause a material decline in the value of our ADSs.

***ADSs holders may not be entitled to a jury trial with respect to claims arising under the deposit agreement, which could result in less favorable outcomes to the plaintiffs in any such action.***

The deposit agreement governing the ADSs representing our ordinary shares provides that, to the fullest extent permitted by law, ADS holders waive the right to a jury trial of any claim they may have against us or the depository arising out of or relating to our shares, the ADSs or the deposit agreement, including any claim under the U.S. federal securities laws.



If we or the depositary opposed a jury trial demand based on such jury trial waiver, the court would determine whether the waiver was enforceable based on the facts and circumstances of that case in accordance with the applicable state and federal law. To our knowledge, the enforceability of a contractual pre-dispute jury trial waiver in connection with claims arising under the federal securities laws has not been finally adjudicated by the United States Supreme Court. However, we believe that a contractual pre-dispute jury trial waiver provision is generally enforceable, including under the laws of the State of New York, which govern the deposit agreement, by a federal or state court in the City of New York, which has non-exclusive jurisdiction over matters arising under the deposit agreement. In determining whether to enforce a contractual pre-dispute jury trial waiver provision, courts will generally consider whether a party knowingly, intelligently and voluntarily waived the right to a jury trial. We believe that this is the case with respect to the deposit agreement and the ADSs.

If you or any other holders or beneficial owners of ADSs bring a claim against us or the depositary in connection with matters arising under the deposit agreement or the ADSs, including claims under federal securities laws, you or such other holder or beneficial owner may not be entitled to a jury trial with respect to such claims, which may have the effect of limiting and discouraging lawsuits against us and the depositary. If a lawsuit is brought against either or both of us and the depositary under the deposit agreement, it may be heard only by a judge or justice of the applicable trial court, which would be conducted according to different civil procedures and may result in different outcomes than a trial by jury would have, including results that could be less favorable to the plaintiffs in any such action.

Nevertheless, if this jury trial waiver provision is not permitted by applicable law, an action could proceed under the terms of the deposit agreement with a jury trial. No condition, stipulation or provision of the deposit agreement or ADSs serves as a waiver by any holder or beneficial owner of ADSs or by us or the depositary of compliance with the U.S. federal securities laws and the rules and regulations promulgated thereunder.

### **Risks Related to Our Operations in Israel**

***Our headquarters, manufacturing and other significant operations are located in Israel and, therefore, our business and operation may be adversely affected by political, economic and military conditions in Israel.***

We are incorporated under the laws of the State of Israel, and our principal offices and research and development and production facilities are located in Israel. In addition, the majority of our key employees, officers and directors are residents of Israel. Accordingly, political, economic and security conditions in the Middle East in general, and in Israel in particular, directly affect our business.

Over the past several decades, a number of armed conflicts have taken place between Israel and its Arab neighbors and a state of hostility, varying in degree and intensity, has led to security and economic problems for Israel. Since late 2000, there has also been a high level of violence between Israel and the Palestinians including during the summer of 2014, when Israel was engaged in armed conflicts with Hamas, a militia group and political party operating in the Gaza Strip. This violence has strained Israel's relationship with its Arab citizens, Arab countries and, to some extent, with other countries around the world. Since the end of 2010, several countries in the region have been experiencing increased political instability, which led to changes in government in some of these countries and the ongoing war in Syria, the effects of which are currently difficult to assess. In addition, Israel faces threats from more distant neighbors, such as Iran (which is believed to be an ally of Hamas in Gaza and Hezbollah in Lebanon) and the militant group known as the Islamic State of Iraq and Syria. This situation may potentially escalate in the future and may also lead to deterioration of the political and trade relationships that exist between the State of Israel and these countries. In addition, this instability in the region may affect the global economy and marketplace. Any armed conflicts or political instability in the region, including acts of terrorism as well as cyber-attacks or any other hostilities involving or threatening Israel, would likely negatively affect business conditions and could make it more difficult for us to conduct our operations in Israel, which could increase our costs and adversely affect our financial results. 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. Any losses or damages incurred by us could have a material adverse effect on our business. Any armed conflict involving Israel could adversely affect our operations and results of operations.

Furthermore, some neighboring countries, as well as certain companies, organizations and movements, continue to participate in a boycott of Israeli firms and others doing business with Israel or with Israeli companies. In the past several years, there have been increased efforts by activists to cause companies and consumers to boycott Israeli goods based on Israeli government policies. Similarly, Israeli companies are limited in conducting business with entities from several countries. For example, in 2008, the Israeli legislature passed a law forbidding any investments in entities that transact business with Iran. Restrictive laws, policies or practices directed towards Israel or Israeli businesses could have an adverse impact on the expansion of our business.

In addition, we could be adversely affected by the interruption or curtailment of trade between Israel and its trading partners, a significant increase in the rate of inflation, or a significant downturn in the economic or financial condition of Israel.

Some of our officers and employees are obligated to perform annual military reserve duty, and in the event of a military conflict, these persons could be called to active duty at any time, for extended periods of time and on very short notice. The absence of a number of our officers and employees for significant periods could materially adversely affect our business and results of operations. We cannot assess the full impact of these obligations on our workforce or business if conditions should change.

***Our operations may be affected by negative labor conditions in Israel.***

Strikes and work-stoppages occur relatively frequently in Israel. If Israeli trade unions threaten additional strikes or work-stoppages and such strikes or work-stoppages occur, those may, if prolonged, have a material adverse effect on the Israeli economy and on our business, including our ability to deliver products to our customers and to receive raw materials from our suppliers in a timely manner.

***The Israeli government grants that we have received require us to meet several conditions and restrict our ability to manufacture products and transfer know-how outside of Israel and require us to satisfy specified conditions.***

We have in the past received, and in the future may apply for, royalty-bearing grants from the Israel Innovation Authority (formerly known as the Office of the Chief Scientist of the Israeli Ministry of Economy), or the IIA, for research and development programs that meet specified criteria pursuant to the Law for the Encouragement of Research, Development and Technological Innovation, 1984 (formerly known as the Law for Encouragement of Research and Development in the Industry, 1984), and the regulations promulgated thereunder, or the R&D Law. The terms of the IIA grants limit our ability to manufacture products or transfer technologies outside of Israel if such products or technologies were developed using know-how developed with or based upon IIA grants. In addition, any non-Israeli who, among other things, becomes an “interested party” in Itamar (e.g., becomes a holder of 5% or more of our share capital or voting rights), is generally required to undertake to observe the law governing the grant programs of the IIA, some of the principal restrictions and penalties of which are the transferability limits described above and elsewhere in this annual report.

Further, the IIA grants may be terminated in the future or the available benefits may be reduced or impacted, including, among other possible circumstances, should we transfer certain research and development or manufacturing activities outside the State of Israel. The termination or curtailment of these programs or the loss or reduction of such benefits could have a material adverse effect on our business, financial condition and results of operations. In addition, the IIA may establish new guidelines regarding the R&D Law, which may affect our existing and/or future IIA programs and incentives for which we may be eligible. We cannot predict what changes, if any, the IIA may make.

To date, we have received royalty-bearing grants from the IIA in a total amount of \$1.05 million (including interest accrued through December 31, 2018) for the development of Endo PAT 3000, a new generation of our Endo PAT product. Since we have ceased our development efforts of Endo PAT 3000, we believe that the terms of these IIA royalty-bearing grants mean that we are not required to repay these grants to the IIA. However, in 2009 the IIA informed us that we must pay royalties on the sale of all of our products since 2012 and, since then, we have been in discussions with the IIA in an attempt to resolve this disagreement. While we disagree with the IIA demand, there is no assurance that we will necessarily prevail in our efforts to oppose this demand. See also in Item 4.B under “Business Overview – Government Regulations – The Israeli Market - Grants from the IIA.”

***Enforcing a U.S. judgment against our Company and our executive officers and directors, or asserting U.S. securities law claims in Israel may be difficult.***

We are incorporated in Israel. Service of process upon us, our Israeli subsidiaries, our directors and officers and the Israeli experts, if any, named in this annual report, substantially all of whom reside outside the United States, may be difficult to obtain within the United States. Furthermore, because the majority of our assets and investments, and substantially all of our directors, officers and such Israeli experts are located outside the United States, any judgment obtained in the United States against us or any of them may be difficult to collect within the United States.

We have been informed by our legal counsel in Israel that it may also be difficult to assert U.S. securities law claims in original actions instituted in Israel. Israeli courts may refuse to hear a claim based on an alleged violation of U.S. securities laws if they determine that Israel is not the most appropriate forum to bring such a claim. In addition, 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. There is little binding case law in Israel addressing these matters. 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.

Subject to specified time limitations and legal procedures, under the rules of private international law currently prevailing in Israel, Israeli courts may enforce a U.S. judgment in a civil matter, including a judgment based upon the civil liability provisions of the U.S. securities laws, as well as a monetary or compensatory judgment in a non-civil matter, provided that the following key conditions are met:

- subject to limited exceptions, the judgment is final and non-appealable;
- the judgment was given by a court competent under the laws of the state of the court and is otherwise enforceable in such state;
- the judgment was rendered by a court competent under the rules of private international law applicable in Israel;
- the laws of the state in which the judgment was given provides for the enforcement of judgments of Israeli courts;
- adequate service of process has been effected and the defendant has had a reasonable opportunity to present his arguments and evidence;
- the judgment and its enforcement are not contrary to the law, public policy, security or sovereignty of the State of Israel;
- the judgment was not obtained by fraud and does not conflict with any other valid judgment in the same matter between the same parties; and
- an action between the same parties in the same matter was not pending in any Israeli court at the time the lawsuit was instituted in the U.S. court.

***Your rights and responsibilities as a shareholder will be governed by Israeli law, which differs in some material respects from the rights and responsibilities of shareholders of U.S. companies.***

The rights and responsibilities of the holders of our ordinary shares and ADSs are governed by our amended and restated articles of association and by Israeli law. These rights and responsibilities differ in some material respects from the rights and responsibilities of shareholders in U.S. based corporations. For example, 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, voting at a general meeting of shareholders on matters such as amendments to a company’s articles of association, increases in a company’s authorized share capital, mergers and acquisitions and related party transactions requiring shareholder approval. In addition, a shareholder who is aware that it possesses the power to determine the outcome of a shareholder vote or to appoint or prevent the appointment of a director or executive officer in the company has a duty of fairness toward the company. There is limited case law available to assist us in understanding the nature of this duty or the implications of these provisions. These provisions may be interpreted to impose additional obligations and liabilities on holders of our ordinary shares and ADSs that are not typically imposed on shareholders of U.S. corporations.

#### **ITEM 4. INFORMATION ON THE COMPANY**

##### **A. HISTORY AND DEVELOPMENT OF THE COMPANY**

###### **Corporate History and Details**

We, Itamar Medical Ltd., were incorporated under the laws of the State of Israel under the name “Itamar Medical (CM) 1997 Ltd.” on January 15, 1997 as a company limited by shares. We changed our name to our current name in July 2000.

In 2001, the first generation of our WatchPAT device received its initial FDA clearance and, in 2003, the first generation of our Endo PAT device received its initial FDA clearance.

In March 2007, we completed our initial public offering in Israel on the TASE, where our ordinary shares are traded under the symbol “ITMR.”

In February 2019, we completed the listing of our ADSs on the Nasdaq Capital Market under the symbol “ITMR.”

Our principal executive offices are located at 9 Halamish St., Caesarea, 3088900 Israel, and our telephone number is +972 (4) 617-7000.

Our authorized representative and agent in the U.S. is Itamar Medical, Inc., which maintains its principal offices at 3290 Cumberland Club Drive, Atlanta, GA 30339, telephone number 1-888-748-2627.

Our address on the Internet is <http://www.itamar-medical.com>. The information on our website is not incorporated by reference into this annual report and should not be considered a part of this annual report, and the reference to our website in this annual report is an inactive textual reference only.

### Recent Major Business Developments

Below is a summary of the major business developments in Itamar Medical since January 1, 2018:

- On February 27, 2019, we announced the first day of trading of our ADSs on the Nasdaq Capital Market under the ticker symbol “ITMR”.
- On January 16, 2019 and January 28, 2019, we entered into agreements with several investors as part of a private placement for gross proceeds of approximately \$14.7 million, which was completed in March 2019, whereby we issued ADSs and ordinary shares representing a total of approximately 46.1 million ordinary shares to the investors. *For additional details, see Item 5.B “Liquidity and Capital Resources – Principal Financing Activities – 2019 Private Placement.”*
- On November 4, 2018, we reported that the Centers for Medicare and Medicaid Services (CMS) has published the CMS Physician Fee Schedule for 2019, which includes an update of the medical coverage for our WatchPAT devices as well as competing HSATs, which we believe may have a positive effect for us. *For additional details, see Item 5.A “Operating Results – Trend Information and Outlook.”*
- On October 9, 2018, we held a special general meeting of our shareholders at which our shareholders approved amendments to our compensation policy for our executive officers and directors, or the Compensation Policy, relating to the criteria for our purchase of directors and officers liability insurance. *For additional details, see Item 6.B “Directors, Senior Management and Employees – Compensation.”*
- On July 30, 2018, we publicly announced that the framework agreement for the sale of our products to one of our material customers, a U.S. hospital and clinics chain, was extended by five years, until June 2023. *For additional details, see Item 4.B “Business Overview – Sales and Marketing”.*
- On May 27, 2018, we completed a private placement of 22,013,893 ordinary shares, resulting in aggregate proceeds (before expenses) of NIS 20.8 million (equivalent to approximately \$6.0 million, based on the exchange rate as of such date). *For additional details, see Item 5.B “Liquidity and Capital Resources – Principal Financing Activities – 2018 Private Placement.”*
- On May 23, 2018, we held our annual meeting of shareholders for 2018, at which our shareholders approved all of the items on the agenda of the meeting, namely, approval of the following matters: (1) reelection of all of our directors (other than our external directors whose term are scheduled to expire in June 2019); (2) the private placement described in the preceding paragraph; (3) an increase of the base salary of our President and Chief Executive Officer (see Item 6.B “Directors, Senior Management and Employees – Compensation – Individual Compensation of Covered Executives”); (4) modification of the performance criteria related to the vesting of stock options and RSUs previously granted to our President and Chief Executive Officer (see Item 6.B “Directors, Senior Management and Employees – Compensation – Individual Compensation of Covered Executives”); (5) an annual cash bonus to our President and Chief Executive Officer for the years 2018 through 2022 (see Item 6.B “Directors, Senior Management and Employees – Compensation – Individual Compensation of Covered Executives”); (6) once our ADSs will become listed on the Nasdaq Capital Market, we will comply with the Israeli regime for dual listed companies under Chapter E3 of the Israeli Securities Law, 1968, or the ISL, which will allow us to use in Israel the same periodic reports, financial and other relevant disclosure information (in English) that we submit to the SEC and Nasdaq; and (7) the reappointment of Somekh Chaikin, a member of KPMG International, as our independent auditors.
- On May 7, 2018, we publicly announced the launch of SleepPath, an integrated e-health sleep apnea care pathway monitoring system that is designed to allow cardiologists to monitor patients with atrial fibrillation (AF) sleep apnea management status and compliance with CPAP devices on demand. *For additional details, see Item 4.B “Business Overview – Our Products and Services”.*
- On April 8, 2018, we publicly announced that we made our preliminary submission to the FDA for clearance of WatchPAT300, a new generation of the WatchPAT line of products. On August 17, 2018, we obtained the FDA clearance. *For additional details, see Item 4.B “Business Overview – Our Products and Services”.*
- On February 28, 2018, we repaid the entire outstanding principal amount and accrued interest of our then outstanding convertible notes. *For additional details, see Item 5.B “Liquidity and Capital Resources – Principal Financing Activities.”*

## Principal Capital Expenditure and Divestitures

See Item 5.B “Operating and Financial Review and Prospects –Liquidity and Capital Resources –Principal Capital Expenditure and Divestitures.”

### B. BUSINESS OVERVIEW

#### Overview

We are a medical technology company that designs, develops, manufactures and sells sleep apnea diagnostic ambulatory products and related services.

We believe a key competitive differentiator for us is the use of the Peripheral Arterial Tone (PAT) biological signal along with other measurements, such as actigraphy, heart rate, chest motion, body position and snoring. All of these inputs are analyzed by our proprietary technology and algorithms.

Our PAT-based technology is implemented in a simple to use non-invasive watch-like wrist worn device called WatchPAT that uses a finger mount bio-sensor to measure and record the PAT signal, which is then transferred to either a local (zzzPAT) or cloud-based (CloudPAT) software for analysis and reporting of sleep apnea diagnosis. The results of our proprietary analysis are automatically populated into an easy to read report that allows physicians to make accurate diagnosis of sleep apnea.

Our Total Sleep Solution (TSS) is a comprehensive marketing program we offer to physicians that combines products and services, including our proprietary diagnostic test and data analytics as well as access to resale of third party sleep apnea treatment devices and a network of independent diagnostics testing facilities (IDTFs) and durable mobile equipment (DMEs) providers. TSS is designed to allow any medical practice or physician that is not a sleep physician by specialty, easy access to a comprehensive suite of products and services for the diagnosis, treatment and management of patients they suspect suffer from sleep apnea. We believe the combination of our proprietary test combined with the ease of single point of contact management of the diagnosis and treatment of sleep apnea provided by TSS has been a driver of the increased usage of our tests. Specific products and services included in the TSS program include CloudPAT and SlepPath for cloud-based data and information mobilization solutions, access to the resale of sleep apnea therapeutic products such as CPAP devices, PAMS and MADs, related services and logistical solutions such as WatchPAT Direct.

Since 2015, we have focused on offering TSS to the cardiology market through various business models; however the Test as a Service (TaaS), also known as Cost per Test (CPT) model, is the primary model we utilized to date. In the TaaS model, the medical practice or physician ordering the TaaS pays a fixed fee per home sleep apnea test (HSAT) that includes all the components associated with the test, including the disposable biosensor, hardware rental fees and access to our CloudPAT platform.

#### Market Overview and Our Solutions

##### *Cardiovascular Disease*

Cardiovascular disease, to which we sometimes refer to as CVD or cardiac disease, is a class of diseases that involves the heart or blood vessels, such as hypertension, heart disease, arrhythmias (including atrial fibrillation) and congestive heart failure.

CVD is highly prevalent and, quite often, a severe and potentially fatal, medical condition. According to reports published by the American Heart Association, approximately 92.1 million (nearly 37.0%) American adults are living with some form of CVD or the after-effects of stroke, and, by 2035, 130 million adults in the U.S. are projected to have some form of CVD.

It has been shown through several published, peer reviewed, studies that sleep apnea is a direct contributing factor to the incidence of various forms of CVD. Accordingly, cardiologists have become increasingly aware and focused on the diagnosis and treatment of sleep apnea. In addition, according to various published reports, there were approximately 32,000 cardiologists in the U.S. in 2017 that work in approximately 7,800 cardiology offices.

## *Sleep Apnea*

Sleep apnea is a serious and chronic sleep breathing disorder that negatively impacts a patient's sleep, health and quality of life. There are two types of sleep apnea:

- *OSA*: Obstructive sleep apnea, or OSA, the most common form of sleep apnea, occurs when a person's breathing is interrupted during sleep by a partially or completely blocked airway. When the airway becomes blocked, the brain detects a stress signal from various biological sources including the chest muscles, lungs and, at times, also a drop in blood oxygen content, which causes the individual to awaken unconsciously (a micro-arousal), just enough to tighten the airway muscles and allow normal breathing to resume. While regular breathing is restored temporarily, the obstruction typically occurs again which restarts the apnea cycle. This cycle of obstructions and waking can repeat dozens of times per hour throughout the night, disrupting the rapid eye movement, or REM, and deep, restorative sleep that are critical to good health as well as creating negative pressure in the abdomen that causes damage to the organs; and
- *CSA*: Central sleep apnea, or CSA, a less common form of sleep apnea, occurs when a person's breathing is impacted by lack of brain stimulation of the lungs and diaphragm muscles rather than obstruction. CSA is usually mixed with OSA and rarely appears in a pure form. This condition is known to be prevalent in heart failure patients as well as residence of high altitudes and opiates addicts and a specific pattern of it is called Cheyne-Stokes Respiration. To our knowledge, there is a continuing debate in the scientific community and among clinical practitioners whether this diagnosis impacts the treatment pathway.

A 2013 study of the American Academy of Sleep Medicine (AASM) reported that 25% of adults worldwide suffer from sleep apnea. According to a 2018 study published by the American Journal of Respiratory and Critical Care Medicine, the prevalence of sleep apnea impacts more than 936 million people worldwide. At the same time, and despite the growing awareness of the consequences of OSA, the most common form of sleep apnea, it was estimated in a 2018 study published by the American Thoracic Society that over 80% of patients with clinically significant and treatable OSA have never been diagnosed.

A 2010 report published by Harvard Medical School estimated the annual economic costs (including the cost of diagnosis and treatment, public safety costs from OSA-related traffic accidents, and the incremental medical costs of OSA co-morbidities) of untreated moderate to severe OSA in the U.S. to be between \$65 billion and \$165 billion annually, potentially greater than the cost of asthma, heart failure, stroke or hypertensive disease, which range from \$20 billion to \$80 billion according to estimates. At the same time, according to an estimate published by Fisher & Paykel Healthcare, the sleep apnea diagnostic and treatment worldwide market was estimated to exceed \$3 billion.

The severity of sleep apnea is typically measured by:

- the number of partial or complete airway blockages that a patient experiences in an hour, referred to as the apnea-hypopnea index, or AHI. For example, moderate OSA patients have an AHI of 15 to 30 events per hour, while severe OSA patients have an AHI of more than 30 events per hour; or
- the average number of respiratory disturbances and related arousals (RERAs) per hour of sleep, referred to as the respiratory disturbance index, or RDI.

Left untreated, sleep apnea increases the risk of serious chronic conditions, such as high blood pressure, cardiac arrhythmias (such as atrial fibrillation) and other cardiovascular disease, metabolic disease, adult type II diabetes and other life-threatening diseases. In particular, published research shows that, if sleep apnea is untreated (1) the risk of stroke or of death from sudden cardiac arrest doubles; (2) the risk of death from CVD is five times greater; and (3) the risk of recurrence of atrial fibrillation following ablation increases by 42%. In addition, a 2010 study published in *Anesthesiology Clinics* illustrates the following co-morbidities associated with sleep apnea: drug resistant hypertension (83% of the studied patients with drug resistant hypertension were diagnosed with OSA); congestive heart failure (76%); diabetes type 2 (72%); stroke (63%); pacemakers (59%); arrhythmias (58%); coronary heart disease (57%); and atrial fibrillation (49%).

There are several treatments options for sleep apnea, including (1) CPAP machines that are used with a variety of breathing masks - the mask, worn snugly over the nose or mouth during sleep, uses the CPAP machine to supply pressurized air that flows continuously or intermittently into the throat and the increased air pressure prevents the airway from collapsing; (2) MADs, also known as sleep apnea oral or dental appliances - the device is designed to position the lower jaw slightly forward of its usual rest position, which may be enough to keep the airway open during sleep for patients with mild to moderate OSA; and (3) other treatment options, such as positional pillows, upper airway neurostimulation devices, tongue ablation and even surgery.

## *Linkage between Sleep Apnea and Cardiovascular Disease*

There is increasing awareness among cardiologists and the general population of the importance of sleep apnea in the causation or promotion of hypertension, coronary artery disease, heart failure, atrial arrhythmias, and stroke, and, consequently, as a predictor of premature cardiovascular death.

A 2013 study published in *American Journal of Epidemiology* estimated that sleep apnea is evident in approximately 25% of adults in the general population, but in certain cardiovascular diseases its prevalence can be approximately 50%. Similarly, according to research published in the *Journal of the American College of Cardiology* in 2017, sleep apnea is highly prevalent in patients with cardiovascular disease and evidence supports a causal association of sleep apnea with the incidence and morbidity of hypertension, coronary heart disease, arrhythmia, heart failure, and stroke. In many cases, sleep apnea was demonstrated to increase the risk for cardiovascular disease or its recurrence post treatment – such as in atrial fibrillation, high blood pressures and myocardial infarction. The 2017 research also indicates that patients undergoing surgery or other invasive procedures who suffer from sleep apnea are at a greater risk to develop post-operative complications and recurrence of the disease.

Other studies also support the linkage between sleep apnea and cardiovascular disease. For example, a 2017 study published in *Circulation: Arrhythmia and Electrophysiology* concluded, among other things, that OSA is associated with structural and functional atrial remodeling, and that in the sleep apnea cohort, post pulmonary vein (PV) isolation, additional non-PV triggers elimination improves ablation outcome, compared with the cohort with no sleep apnea where PV isolation only was sufficient. In addition, this 2017 study calls for conducting sleep studies before ablation, which lead us to believe that the presence of sleep apnea may help define the ablation strategy.

## *Current Alternatives for Sleep Apnea Diagnosis and their Limitations*

A definitive diagnosis of sleep apnea can be made with either a sleep study conducted during an overnight visit to a sleep laboratory or sleep center, known as polysomnography (PSG) studies or PSG tests, or through a HSAT:

- *In-lab PSG Tests.* PSG tests have been the standard method of diagnosing sleep apnea. They are performed in a sleep lab while the patient is constantly monitored by medical professionals, usually sleep technicians. Patients are hooked up to a web of sensors, electrodes and wires attached to various body parts, as well as chest and abdomen belts and air tubes in the nostrils. PSG tests typically record 12 or more channels of measurements, including brain waves, eye and chin movements that signal the different stages of sleep; heart rate and rhythm; respiration, such as nasal air flow; abdominal and chest belts; and oxygen levels in the blood.
- *Home Sleep Apnea Test (HSAT).* HSATs are low cost, portable devices that allow patients to be tested in the comfort of their home for diagnosing sleep apnea. They vary in terms of the number of channels or parameters that they measure, the simplicity of the technology to set up and use, and the comfort to the patient. Most HSATs are self-administered with the patient returning the equipment to the physician where the data is then downloaded and interpreted by a board-certified sleep physician.

We believe that there are several shortcomings to in-lab PSG testing, including:

- *Convenience.* Patients must travel to a sleep lab to conduct the sleep test, spending an overnight away from their home, and, if they are residents of a non-metropolitan area, the patients typically must travel to the closest networked center;
- *Cost.* The reimbursement rate of PSG by third party payors is higher compared to HSAT devices. We estimate that PSG testing in the U.S. is reimbursed at a range of between \$750 and \$2,000 compared to HSAT that is reimbursed at a range of between \$160 and \$240 and, consequently, the deductible to the patient for HSATs is lower;
- *Access to Care.* Due to a limited number of sleep centers and higher denial rates by medical insurance companies (requiring an HSAT prior to approving an in-lab PSG test), patients often have to wait longer for their scheduled appointment; and
- *Patient Discomfort and Quality of Sleep During Test.* Patients are less likely to have a typical night's sleep in a sleep lab, compared to sleeping in their own home. This is primarily because they are in an unfamiliar setting and being watched by strangers, not subject to their regular home environment that may include allergens (such as pollens and animal particles) and are also hooked up to a web of sensors and wires.

As more fully described below, we believe that HSATs address many of these PSG shortcomings, primarily because HSATs are more convenient for the patient; provide easy access to care; are less expensive; and provide a more typical night of sleep recorded in the comfort of the patient's home.

The importance of HSATs has been recognized by various medical organizations and associations, including AASM that approved the usage of home sleep testing for the diagnosis of sleep apnea with a portable sleep device in 2009. In addition, in 2008, the Centers for Medicare and Medicaid Services (CMS) approved HSATs as a new technology alternative and, in 2011, AASM issued new CPT codes (“Current Procedural Terminology” (CPT) and “Healthcare Common Procedure Coding” (HCPC)) for HSAT reimbursement. As such, various third party payors have been implementing prior authorization programs which stipulate that reimbursement requests for in-lab PSG testing would be rejected, unless an HSAT was first conducted. These all contribute to increased use of HSATs and we believe that it will become the predominant form of sleep testing in the future, at least in the U.S.

Despite the advantages of HSATs over PSG tests, we believe there are several deficiencies in cardio-pulmonary HSAT devices, to which we sometimes refer herein as traditional HSAT devices. These deficiencies include:

- *Possible Misdiagnosis.* Most HSATs use Total Recording Time (TRT) as their denominator to calculate the most critical criteria of the Apnea Hypopnea Index (AHI), the index used by physicians to analyze sleep apnea, compared with PSG tests that use Total Sleep Time (TST). TST is similar to TRT but deducts the total time that the patient was awake, such as the time it takes the patient to fall asleep, insomniac episodes and trips to the restroom. The use of TRT without manual scoring of the data by a sleep technician has been proven in recent studies to result in a net misdiagnosis of up to 19% of patients; and
- *Completion Rates.* The rates of completion of traditional HSATs are relatively low in the first night due to technical challenges, such as disconnection of sensors, mainly due to finger oximetry and nasal probes, and patient self-setup errors. For example, according to a 2014 study published by Frost & Sullivan, approximately 80% of HSATs fail in the first night.

#### *Our Solutions*

Our WatchPAT proprietary product, which utilizes the PAT signal, is designed to enable patients to easily conduct sleep tests in the comfort of their home while delivering the treating physicians with accurate and reliable results for diagnosis of sleep apnea. We believe that WatchPAT provides several key advantages over both in-lab PSG testing as well as other HSAT devices by offering the following key benefits: ease of use and patient comfort; accuracy; low cost; and immediate and easy-to-read results (see additional details under “*Our Products and Services - The WatchPAT - Key Benefits of WatchPAT*” below).

We believe these advantages enable a shift in the “point of care” (the focal point at which the disease is being managed) of sleep apnea from sleep centers to the cardiology care point. In particular, through our WatchPAT related services, including CloudPAT, our cloud-based IT platform, and our TSS program, we offer physicians in the cardiology market what we believe to be an effective solution to manage the entire care pathway for patients suffering from sleep apnea by covering both the screening and diagnosis stage of sleep apnea, using our WatchPAT product, as well as, through the resale of devices of our business partners, treatment thereof (see additional details under “*Our Products and Services - WatchPAT Related Services and Accessories*” below).

#### **Our Strategy**

Our goal is to become a world leader in sleep apnea management solutions for the cardiology market. The key elements of our strategy to achieve our goal include:

- *Position WatchPAT as the Leading Platform for Cardiologists.* We plan to educate, market and make available the WatchPAT device to cardiologists, leveraging on its innovative features and benefits enabled by our PAT-based technology. We believe that the main advantages to cardiologists include ease of use to end-users at home, differentiated clinical value with True Sleep Time (as opposed to Total Recording Time, as explained below) and sleep architecture as well as the ability to accurately autoscore both obstructive and central sleep apnea events, all leading to both scalability and operational efficiency. With our CloudPAT data transfer and SleepPath monitoring platforms, we believe we are further positioned to enable cardiologists to integrate sleep apnea management into the cardiology care continuum.
- *Focus on a One-Stop Sleep Apnea Solution for the Cardiology Market.* We intend to capitalize on the linkage between sleep apnea and cardiovascular disease as well as benefit from the advantages of our WatchPAT products compared to traditional HSAT solutions, by shifting the point of care for sleep apnea from sleep centers to the cardiology care point and by focusing our sales and marketing efforts on cardiologists. We intend to do so by, among other things, promoting our TSS program to the cardiology market, a program which is designed to allow us to offer a comprehensive solution, covering both the screening (performed by the clinics) and diagnosis stage of sleep apnea as well as treatment thereof by access to reselling of therapeutic product lines such as CPAPs and MADs.



- *Continue to Commercialize our WatchPAT Solution.* We currently maintain direct and indirect sales channels (through distributors) in the United States, Europe, Japan and Asia Pacific. We intend to continue to focus on commercializing our WatchPAT product and related services by expanding our sales and marketing infrastructure, primarily in the United States.
- *Expand to New Customers.* We plan to expand our sales to new customers by introducing and promoting flexible sales models, such as our Cost per Test (CPT) model to clinical customers.
- *Broaden Medical Insurer Coverage.* We plan to continue our efforts in obtaining wide insurance reimbursement for our WatchPAT products.
- *Expand and Leverage our Strategic Relationships.* We believe that a significant market opportunity exists to sell our solutions as complementary to the products and services provided by other organizations with whom we wish to collaborate. To that end, we have already established strategic relationships with various third parties, including leading global partners, where our products are sold as complementary products to their product offering or their products are sold as complementary products to our product offering. We plan to extend our existing strategic relationships and develop new alliances with other partners, in order to increase sales. Doing so will also allow us to leverage the sales and marketing capabilities of our alliance partners and facilitate the wider adoption of our products.
- *Promote Awareness to Our Products.* We believe that many patients, physicians and cardiologists are still unaware of our TSS program and WatchPAT offerings. We intend to continue to promote awareness of our products through training and educating physicians (including cardiologists), sleep centers, referring physicians, key opinion leaders and various medical societies. We also plan to continue building awareness through our various marketing initiatives.
- *Invest in Research and Development.* We will continue to make investments in research and development, including investments to enhance our WatchPAT product, and to develop additional applications and indications using our proprietary technologies.

## **Our Products and Services**

### ***The WatchPAT***

*Overview.* Our WatchPAT sleep apnea test line of products, the first generation of which received its initial FDA clearance in 2001, is a watch-like wrist-mounted device with one or two (depending on the model of the WatchPAT product) single-use disposable bio-sensors connected to the patient's fingers, designed to non-invasively record, measure and analyze digital pulse volume change, or changes in arterial blood volume, primarily in a patient's finger.

The product is based on our proprietary, clinically validated, technology using the PAT signal, which technology is capable of monitoring the PAT signal and to analyze it for diagnostic purposes. The PAT signal measures changes in the patient's peripheral arterial pulse volumes as well as various parameters of arterial activity. These arterial activity parameters accurately reflect the patient's sympathetic nervous system (autonomous (involuntary) nervous system) activity. The WatchPAT continuously records and interprets the autonomic or involuntary nervous system activation during sleep, including that which occurs upon every sleep breathing disorder, as measured through the PAT signal. The PAT probe uses optical sensors to non-invasively measure the changes in arterial blood volume while applying sub-diastolic pressure on the distal two thirds of the finger, including the tip. The pressure fields reduce the arterial wall tension and generate a greater dynamic range of the measured PAT signal and improved sensitivity to changes in the signal amplitude.

With the original models of the WatchPAT, the patient had an additional oximetry sensor attached to another finger measuring blood oxygen saturation. In 2014, we introduced WatchPAT 200 Unified, which allows our proprietary sleep apnea test to be performed using only a single finger to collect both oximetry and PAT data in a unified probe. In the year ended December 31, 2018, the WatchPAT 200 Unified was our main product offering. In March 2019, we introduced the WatchPAT300, a new generation of the WatchPAT line of products, which, among others, is designed to expedite data transfer and allow the use of a lighter and smaller watch. Unless otherwise indicated, we refer to WatchPAT 200 Unified in this annual report as WatchPAT or WatchPAT200/U.

The following picture depicts the WatchPAT 200 device:



*Key Features.* The key features of WatchPAT are as follows:

- *Single-use disposable bio-sensor.* WatchPAT employs a single-use disposable finger bio-sensor to measure the PAT signal. The bio-sensor is built of external hard shell and sensitive internal membrane that create blood pooling in the finger circulation as well as sensitive optical sensors to measure accurately changes in blood volumes and oxygen levels.
- *Reusable device.* Except for the bio-sensor, the WatchPAT device itself is reusable and returned to the physician or clinic after patient use.
- *Data processing.* The data acquired by the various sensors is automatically processed by our proprietary algorithm and a final report is automatically generated to the physicians through local or cloud-based software.
- *Seven channels.* WatchPAT is designed to measure seven unique parameters, also known as channels:
  - *PAT*— Peripheral Arterial Tone, which is a physiological signal that mirrors changes in the autonomic nervous system caused by respiratory disturbances during sleep.
  - *Oximetry*— the measurement of oxygen levels in the blood.
  - *Actigraphy*— the measurement of body movement while sleeping. WatchPAT actigraphy is equipped with adaptive algorithms that prevent detection of severe apneic events, such as wakefulness.
  - *Heart Rate*— the number of heart beats per minute while sleeping.
  - *Body Position*— notes whether the patient is asleep on back (supine), front (prone) or side, all of which influence sleep apnea.
  - *Snoring Intensity*— loud snoring is a major indicator of sleep apnea.
  - *Chest Motion*— three axial movement of a point on the chest, just under the sternum notch, during the breathing cycle.
- *Rich Data Output.* WatchPAT uses the seven channels of patient data and our proprietary algorithms to process and provide the physicians various data outputs for their diagnosis, including:
  - *Total Sleep Time (TST)* — WatchPAT reports both TST and basic Hypnogram (also known as sleep architecture), even though it does not employ the traditional airflow and chest and abdominal effort belts channels nor the electroencephalograph (EEG) and eye movement detectors used in some other HSAT devices.
  - *Apnea/Hypopnea Index (AHI) and Respiratory Disturbance Index (RDI)* — WatchPAT provides information on AHI and RDI, the clinically accepted indices that determine the severity of sleep apnea.
  - *Central Sleep Apnea (CSA) diagnosis.* With our Central Plus module, WatchPAT can also provide quantification of cAHI, which is the portion of events per hour that are identified as CSA and percent of sleep time with Cheyne-Stokes Respiration.

- o *Oxygen Desaturation Index (ODI)* — WatchPAT provides information on ODI, which is the total number of blood oxygen saturation drops per hour of sleep, as well as statistics about the blood oxygen saturation statistics throughout the night.
- o *Sleep Stages and Architecture* — WatchPAT provides information on the cyclical pattern of sleep stages, summarized in a chart called a hypnogram, which differentiates between light sleep, deep sleep and REM (rapid eye movement) sleep. REM related sleep disorders are associated with significant higher risk for hypertension.
- o *Sleep Fragmentation* — WatchPAT detects repeated short interruptions of sleep throughout the night.
- o *Other* — WatchPAT provides data on outputs of various other channels, including heart rate, body position and snoring intensity.

*Key Benefits of WatchPAT.* We believe that WatchPAT has several key advantages over in-lab PSG testing and competing HSAT products by providing the following key benefits:

- *Ease of Use and Patient Comfort.* Composed of a simple wrist worn watch-like device with one “on” button and one finger probe (in the WatchPAT 200 Unified model), WatchPAT was specifically designed for home sleep apnea testing with minimal patient education. As such, we believe it is easy and intuitive to operate for patients in all ages, including by way of offering a durable and easy to clean device (which supports infection prevention), equipped with validated automated scoring algorithms that reduces time of processing and analyzing the raw data collected to few minutes, compared with manual scoring that we estimate takes on average between 30 to 40 minutes. We estimate that these advantages also translate to a test completion rate of 99%, compared with other HSAT devices that have estimated completion rates of 80%. Our WatchPAT 300, first introduced in March 2019, is also designed to expedite data transfer and allow the use of a lighter and smaller watch.
- *Accuracy.* Based upon, among other things, several studies, including a meta-analysis study (see below under “*Business Overview - Clinical Results and Studies*”), we believe that the WatchPAT offers diagnosis accuracy that, while not equivalent, presents a viable alternative to in-lab PSG for confirmation of clinically suspected sleep apnea. In addition, the WatchPAT device has several features that are provided by in-lab PSG but we believe are lacking in most traditional HSATs, including:
  - o The ability to accurately report TST (Total Sleep Time), not just TRT (Total Recording Time) like in traditional HSATs. The TST detection is important for patients who tend to wake up frequently during the night or suffer from insomnia; and
  - o The ability to detect sleep stages, with a focus on REM sleep. The diagnosis of REM related sleep patients can be missed because their overall AHI is low, whereas their REM-related AHI is high. According to one study from 2015, if REM related sleep apnea is left untreated, it is associated with up to a 24% increase in risk for hypertension.
- *Cost.* The total cost of a WatchPAT test is less expensive for third party payors than an overnight sleep center test. We estimate that PSG testing is reimbursed in the U.S. at a range of between \$750 and \$2,000, compared to WatchPAT that is reimbursed at a range of between \$160 and \$240 and, consequently, the deductible to the patient for HSATs is lower. We believe this cost advantage to payors and patients will help drive market penetration.
- *Provides Immediate and Easy-to-Read Results.* Most in-lab PSG and HSATs require a sleep technician to review and interpret the raw data recording and identify areas of poor signals, wakefulness and other technical issues related to nasal cannula motion. The WatchPAT is designed to provide validated automated reports, without the need for the additional step of a sleep technician’s review.

*WatchPAT300.* In April 2018, we publicly announced that we made our preliminary submission to the FDA for clearance of WatchPAT300, a new generation of the WatchPAT line of products that is designed to expedite data transfer, allow the use of a lighter and smaller watch and reduce manufacturing costs. The WatchPAT300 also lays the foundation for possible additional future capabilities, such as wireless communication embedded in the device. In August 2018, we obtained the FDA clearance, and, in March 2019, we announced the commercial launch of the WatchPAT300.

*WatchPATONE.* In January 2019, we publicly announced that we made our preliminary submission to the FDA for clearance of WatchPATONE, a one-time use disposable product, which the patient will not be required to return to the treating physician or clinic. This is the second submission (in addition to the aforesaid submission of the WatchPAT300) in a series of planned submissions relating to the new generation of the WatchPAT line of products. We estimate that the FDA would take six to 12 months to complete the examination process, and based on past experience, we believe there is a high probability of obtaining such clearance.

### *WatchPAT Related Services and Accessories*

*Total Sleep Solution (TSS).* Our Total Sleep Solution, or TSS, marketing program aims to provide a complete sleep apnea management solution to cardiology customers, either at the cardiology center or through third party service providers. The key components of our TSS program, which is currently offered only in the United States, include:

- *Screening* – We provide information that helps clinics to implement patients’ systematic screening for high pre-test probability into the cardiology practice patient flow routine by using validated questionnaires, such as STOP-Bang (Snoring, Tired Observed stop breathing, high blood Pressure, BMI, Age, Neck size and Gender). This initial screening is a required documentation step by most insurance companies to qualify for HSAT reimbursement;
- *Diagnostics* – Following initial screening, we help the diagnostic stage by offering (1) home sleep testing using our WatchPAT devices; use of our CloudPAT solution, as described below, to transfer the test results to a board-certified sleep physician for interpreting the test results and access to our WatchPAT Direct platform described below for customers who prefer outsourcing the logistics; or (2) for those customers who prefer to prescribe for the test only, access to a network of Independent Diagnostic Testing Facilities (IDTF) for patient diagnostic services using the WatchPAT or other HSAT devices;
- *Treatment* – Through arrangements between the clinics and Durable Medical Equipment (DME) service providers, patients diagnosed with sleep apnea can be provided with sleep apnea therapy devices, such as CPAP, or, by the clinic referring to dentists specializing in sleep medicine, with prescriptions for MADs. Those service providers may use third party therapy devices (or, during the year ended December 31, 2018, devices that we acquired from third parties and sold to the service providers, and, in turn, deliver them to the patient and claim the reimbursement), if the certified sleep physician assigned to interpret the test results prescribes such devices; and
- *Reporting* – Using our CloudPAT and SleePath solutions, as described below, we facilitate the cardiology customers’ receipt of status reports and to otherwise monitor the patients’ sleep apnea management status and compliance, if their DME service providers use devices compatible with our SleePath solutions.

*WatchPAT Direct.* WatchPAT Direct is a set of logistical support services that we offer from our service center in Atlanta, Georgia, that include coordination, delivery and collection of WatchPAT devices, based on orders of prescribed sleep tests, from a customer to the patient and back. WatchPAT Direct is currently offered only in the mainland of the United States.

*CloudPAT.* CloudPAT is a cloud-based information technology (IT) platform, designed to allow customers to transfer the WatchPAT test results primarily to board-certified sleep physicians, IDTF and DMEs. The board-certified sleep physicians receive and interpret the test results, make a diagnosis and potentially prescribe therapy. In the U.S., the signing off on the diagnostic report by a board-certified sleep physician is required by the reimbursement guidelines of AASM and CMS. Recently, CloudPAT was expanded to include also most of the zzzPAT’s analytical tools.

*zzzPAT.* zzzPAT is an analysis software used in conjunction with our WatchPAT devices. This software stores the recorded raw signals and provides a set of both automated as well as manual scoring and analytical functions for interpretation and reporting purposes used in the diagnosis of sleep apnea.

*SleePath.* SleePath is an integrated e-health sleep apnea care pathway monitoring module, included as part of our CloudPAT system, that is designed to allow cardiologists to monitor a patient’s sleep apnea management status and compliance with CPAP therapeutic devices on demand. Key features of SleePath include (1) utilizing data from both the CloudPAT and the cloud-based data transmitted and stored by leading CPAP devices manufacturers, including Philips U.S., to provide a “cardio sleep dashboard”, which is designed to allow physicians to track the sleep care pathway status of both the physician practice and the individual patient; and (2) the system monitors and reports CPAP device compliance (the number of days and hours on CPAP and residual sleep apnea), with the data being presented in a user-friendly visual format that is designed to show progress or deviation toward specific treatment goals and changes in metrics over time.

## ***The Endo PAT***

The Endo PAT device, the first generation of which received FDA clearance in 2003, was designed to diagnose endothelial function by measuring the ability of blood vessels to dilate as a response to shear stress, or other stimuli, in order to accommodate increased blood flow. The endothelium is the inner lining of all blood vessels regulating their function and ability to dilate or constrict. The Endo PAT device uses our PAT-based technology to measure the ability of blood vessels to dilate after an artificially created ischemic situation. Endothelial dysfunction is a proven independent functional marker for most types of CVD.

In the United States, Endo PAT has no reimbursement and is sold primarily for research purposes.

## **Clinical Results and Studies**

We have invested in and developed a significant body of clinical studies and data that demonstrates the effectiveness and safety of our WatchPAT product by validating it against “gold-standard” PSG tests. The effectiveness and safety of our WatchPAT product has been consistent across both funded and independent clinical studies that have evaluated tests of more than a thousand patients, all of which have been published in peer-reviewed publications.

The following is a summary that highlights key findings from certain of these studies. We determined to present the key findings of these studies because, out of the studies relating to our business that we have found, we believe that (except to the extent indicated under "*Impact of Arterial Stiffness on WatchPAT Variables in Patients With Obstructive Sleep Apnea*" below) (1) these studies are the most material, relevant, reliable (primarily in the sense that the study uses commonly adhered procedures for such type of studies) and comprehensive studies conducted that are relevant to our main product, the WatchPAT, (2) these studies address (whether in a favorable or negative manner) material elements underlying our statements regarding the key features of the WatchPAT and its comparison to PSG tests, and (3) disclosing such studies is meaningful to investors.

In our discussion of the results of the studies described below, we have indicated the relevant p-values (P) which demonstrate the statistical significance, all of which are less than 0.05, which is the commonly accepted threshold for statistical significance and follows the convention used by the authors of the relevant study as well as what we believe is standard clinical practice.

Where we have not indicated the p-value in the results of the studies described below, it is either because the relevant result is not a statistical parameter or the study itself did not publish the p-value for the specific result. We believe such findings, despite the lack of p-value, are still meaningful and useful to investors primarily because they were part of the findings highlighted or conclusions provided by the authors and are otherwise relevant to an understanding of our WatchPAT device and, with respect to the Health Provider System Study described below, also illustrate how one health provider has evaluated the transition from PSG tests to HSATs.

### *Diagnosis of Obstructive Sleep Apnea by Peripheral Arterial Tonometry*

This meta-analysis study, which was published with the above title in *JAMA Otolaryngology—Head & Neck Surgery* in December 2013, aimed to assess the correlation between sleep indexes (namely, the respiratory disturbance index (RDI), apnea hypopnea index (AHI), and oxygen desaturation index (ODI), which indexes are described under "*Marketing Overview and Our Solutions*" above) measured by a PAT-based portable sleep testing device (using our WatchPAT device) and those measured by PSG tests, by conducting a review of multiple studies and articles that, overall, examined 909 patients.

The key results of this study were that (1) studies comparing the RDI between the PAT-based tests and PSG tests had a correlation of  $r = 0.879$  ( $P < 0.001$ ), where  $r = 1.00$  would indicate the highest correlation; (2) studies comparing the AHI between the PAT-based tests and PSG tests had a correlation of  $r = 0.893$  ( $P < 0.001$ ); and (3) studies comparing the ODI between the PAT-based tests and PSG tests had a correlation of  $r = 0.942$  ( $P < 0.001$ ).

Based on the results, we interpret this study to show that PAT-based portable devices, such as our WatchPAT device, present a viable alternative to PSG for confirmation of clinically suspected sleep apnea.

### *Impact of Arterial Stiffness on WatchPAT Variables in Patients with Obstructive Sleep Apnea*

This study, which was published with the above title in *Journal of Sleep Medicine* in March 2018, aimed to assess the effects of arterial stiffness on WatchPAT results, by examining a total of 61 patients with suspected OSA, where each patient initially underwent a home sleep study with WatchPAT, followed, after an average of 39 days, by both an in-lab full PSG sleep study and an arterial stiffness evaluation using a Brachial-Ankle Pulse Wave Velocity (baPWV) test.

The key results of this study were that (1) overall, WatchPAT's apnea-hypopnea index, or AHI, was moderately correlated ( $r=0.69$ ) to those AHI of PSG ( $P<0.0001$ ); (2) for patients with lower baPWV, there was a significant correlation between the WatchPAT and PSG's AHI (for example, for patients with  $baPWV < 1500$ ,  $r = 0.782$  ( $P \leq 0.0001$ )); and (3) for the high baPWV group, there was low or non-significant correlation between the WatchPAT and PSG's AHI (for example, for patients with  $baPWV > 1500$ ,  $r=0.397$  ( $P=0.04$ )). The study concluded, on a cautionary note, that high arterial stiffness may affect the respiratory variables measured by WatchPAT.

We note that, while this study addresses (in a favorable as well as negative manner) various features of the WatchPAT and its comparison to PSG tests, we do not believe this study necessarily meets all of the criteria we used as described above and we otherwise believe its results are limited for the following primary reasons: (1) the WatchPAT validation comparison with the PSG test was conducted after a delay of 39 days on average, instead of being performed simultaneously as in most WatchPAT validation studies. Based upon the literature on the consequences of delays of such length between repeated studies, we believe the delay may introduce a substantial degree of variability between respective tests; and (2) the study used an AHI threshold of 30 to diagnose OSA instead of using other, lower and more commonly used conventional diagnostic AHI thresholds, such as an AHI threshold of 15.

#### *Sleep Staging Based on Autonomic Signals: A Multi-Center Validation Study*

This multi-center study, which was published with the above title in the *Journal of Clinical Sleep Medicine* in June 2011, aimed to assess the WatchPAT-based algorithm for determining wake, light sleep, deep sleep, and REM sleep based on epoch-by-epoch comparisons to PSG tests, by monitoring a total of 237 patients (of which 38 were normal and 189 were diagnosed with OSA) that underwent simultaneous, synchronized overnight recordings with PSG and the WatchPAT. As described under "Our Products and Services – The WatchPAT - Sleep Stages and Architecture," the ability to detect the various sleep stages provides important information on the cyclical pattern of sleep stages, which differentiates between light sleep, deep sleep and REM (rapid eye movement) sleep. It should be noted that this study, which was authored by, among others, certain of our current or former employees and consultants, was partially sponsored by us and, to our knowledge, also used certain data from previous, other, studies that we supported.

The key results of this study were that (1) the overall agreement between PSG tests and WatchPAT in detecting light/deep sleep was  $88.6\% \pm 5.9\%$  ( $P<0.05$ ); (2) the overall agreement between PSG tests and WatchPAT in detecting REM sleep was  $88.7\% \pm 5.5\%$  ( $P<0.05$ ); (3) detecting REM latency provided similar results in PSG tests and WatchPAT ( $237 \pm 148$  and  $225 \pm 159$  epochs in PSG and WatchPAT, respectively) ( $P<0.05$ ); (4) quantifying REM percentage in PSG tests and WatchPAT was  $14.4\% \pm 6.5\%$  and  $19.3\% \pm 8.7\%$ , respectively ( $P<0.05$ ); and (5) detecting sleep efficiency in PSG tests and WatchPAT provided similar results ( $78.4\% \pm 9.9\%$  and  $78.8\% \pm 13.4\%$  in PSG and WatchPAT, respectively) ( $P<0.05$ ). In addition, according to this study, OSA severity did not affect the sensitivity and specificity of the WatchPAT algorithm.

Based on the results, we interpret this study to show that WatchPAT is capable of detecting sleep stages with moderate agreement to PSG tests in normal subjects and OSA patients and that sleep staging based on actigraphy and signals recorded by the WatchPAT is of reasonable accuracy.

#### *A Novel Adaptive Wrist Actigraphy Algorithm for Sleep-Wake Assessment in Sleep Apnea Patients*

This study, which was published with the above title in *Sleep* in December 2004, aimed to validate an automatic algorithm, developed for actigraphic studies in normal subjects and patients with OSA, by comparing it on an epoch-by-epoch basis to PSG tests, by monitoring a total of 228 subjects from three different sleep centers that underwent simultaneous, synchronized recordings with PSG and the WatchPAT (a model with a built-in actigraph). It should be noted that, to our knowledge, this study used certain data from previous, other, studies that we supported.

The key results of this study were that (1) the overall agreement between PSG and WatchPAT ranged from 86% in normal subjects to 86%, 84%, and 80% in the patients with mild, moderate, and severe OSA, respectively ( $P<0.05$ ); (2) the overall sensitivity (i.e., the probability that WatchPAT detected sleep when the PSG detected sleep at that epoch) and specificity (i.e., the probability that WatchPAT detected wake when the PSG detected wake at that epoch) to identify sleep was 89% and 69%, respectively; and (3) there was no statistical difference between WatchPAT and PSG in determining sleep efficiency (i.e., the total sleep time as percentage of the amount of time spent in bed from first attempting to go to sleep until final waking up) ( $78.4\% \pm 9.9\%$  and  $78.8\% \pm 13.4\%$ , respectively) and total sleep time (TST) ( $690 \pm 152$  epochs and  $690 \pm 154$  epochs, respectively) but there was a significant difference in determining sleep latency (i.e., the time it takes for the patient to fall asleep) ( $56.8 \pm 31.4$  epochs and  $43.3 \pm 45.4$  epochs, respectively). For most individuals, the difference between the PSG and actigraphy was relatively small, although for some there was a substantial disagreement up to a maximum of 37% in sleep efficiency.

Based on the results, we interpret this study to show that the WatchPAT actigraphy algorithm provides a reasonably accurate estimation of sleep and wakefulness in normal subjects as well as in OSA patients.

## Health Provider System Study

This study, which was published under the title *The Effect of the Transition to Home Monitoring for the Diagnosis of OSAs on Test Availability, Waiting time, Patients' Satisfaction, and Outcome in a Large Health Provider System in Sleep Disorders* in April 2014, to which we also refer as the Health Provider System Study, aimed to assess the effects of the transition of one of the leading health insurance providers in Israel from PSG tests to HSATs in terms of accessibility, waiting time, patient satisfaction, costs and CPAP device purchases by patients, by comparing data that was retrieved from the insurance provider's database of 650,000 patients between the period of 2007-2008 and 2010-2011 (2009 was excluded during the transition from PSG to HSAT).

The key results of this study were that (1) 1,471 sleep studies were conducted during 2007-2008 (or, on average, 735.5 studies per year), compared with 2,794 sleep studies (or, on average, 1,397 studies per year) during 2010-2011 ( $P < 0.05$ ), reflecting a 90% increase of the number of sleep study tests performed following the transition to HSAT (while the increase in total insured people during same period was less than 5%); (2) despite an increase in the number of tests, the shift to HSAT was accompanied by a decrease of over 20% in overall expense of OSA diagnosis; (3) the average waiting time decreased from 9.9 weeks during 2007-2008 to 1.1 week during 2010-2011 ( $P < 0.05$ ); (4) CPAP device purchases increased by 39%, from 597 devices in 2007-2008 to 831 devices in 2010-2011; (5) there were similar outcomes for both HSAT and PSG tests of compliance to CPAP treatment, daily CPAP usage, improvement in daytime sleepiness and quality of life, and patient satisfaction; and (6) in retrospect, 56% of patients who underwent PSG tests indicated that they preferred HSAT and 72% of patients who underwent HSATs indicated that they preferred HSAT ( $P < 0.05$ ).

Based on the results, we interpret this study to show that a transition from in-lab testing to unattended home sleep testing improved OSA diagnosis test accessibility reduced waiting time and reduced overall OSA diagnosis costs, while maintaining patient satisfaction.

## Sales and Marketing

*General.* Our WatchPAT products and related services are sold and marketed through both direct and indirect channels, including distributors, primarily to hospitals, medical centers (including sleep centers), HMOs, physicians (including sleep specialists), research institutions and cardiology departments. The targeted customers for our WatchPAT technology are primarily cardiologists and electrophysiologists who are interested in integrating sleep medicine into their practice, as well as physicians who specialize in sleep medicine. Sleep specialists represent a variety of medical backgrounds, including pulmonologists (lung specialists), otolaryngologists (ears, nose, and throat), neurologists, primary care physicians and dentists. Our physician customers typically practice in an office setting, clinics, or hospitals. Our Endo PAT products and related services are sold primarily through indirect channels to research institutions and directly to pharmaceutical companies.

We offer our WatchPAT products to customers in two main business models:

- Test as a Service (TaaS), also named as Cost per Test (CPT), whereby our customers pay a fixed fee per each home sleep test conducted with our product. The fee per test includes all the components associated with the test, including the disposable bio-sensor (one disposable is used once with each WatchPAT test), the hardware (the WatchPAT device itself) and access to our CloudPAT platform; and
- Capital purchase, whereby our customers purchase and own the hardware (the WatchPAT device itself), the disposables bio-sensor (one disposable is used once with each WatchPAT test) and other related accessories. We also offer our customers capital purchase through a lease model, whereby the customer leases the product for monthly lease payments, typically over a period of between 18 to 24 months, and becomes the owner of the product at the end of the lease period in consideration for a nominal amount.

While sleep physicians and traditional sleep business represent the majority of our U.S. customers today, consistent with our strategy, our plan is that cardiologists will represent the majority of our growth and will become an increasingly larger component of our U.S. sleep business over time.

In the years ended December 31, 2018, 2017 and 2016, a substantial majority of our revenues were derived from our WatchPAT products and related services (93% in the year ended December 31, 2018, 87% in the year ended December 31, 2017 and 85% in the year ended December 31, 2016). In terms of geographic markets in the years ended December 31, 2018, 2017 and 2016, a substantial majority of our revenues were from sales in the United States (73% in the year ended December 31, 2018, 71% in the year ended December 31, 2017 and 72% in the year ended December 31, 2016). *For additional details regarding the breakdown of our revenues in the years ended December 31, 2018, 2017 and 2016 by type of products and geographical distribution, see Item 5.A "Operating and Financial Review and Prospects – Operating Results – Results of Operations".*

For the year ended December 31, 2018, (1) Kaiser, one of the largest medical insurers and hospital system in the U.S., accounted for approximately 18.9% of our total revenues (compared with 17.5% in the year ended December 31, 2017 and 19.2% in the year ended December 31, 2016); (2) Philips Japan, a leading global provider of solutions to the sleep and respiratory market, accounted for approximately 13.3% of our total revenues (compared with 12.7% in the year ended December 31, 2017 and 11.5% in the year ended December 31, 2016); and (3) VA, one of the largest U.S. hospital and clinics chains, accounted for approximately 11.9% of our total revenues (compared with 12.1% in the year ended December 31, 2017 and 11.4% in the year ended December 31, 2016). See also Note 16 to our audited consolidated financial statements included elsewhere in this annual report.

*Direct Sales.* We continue to develop our sales and marketing organization that consists of a dedicated sales team that is complemented by a marketing team as well as sales and marketing support personnel. Our sales force (including marketing, sales and sales and marketing support personnel) as of December 31, 2018 was comprised of a total of 52 persons, of which 44 persons were located in the United States (in the U.S., we had 17 distinct geographic territories as of December 31, 2018) and eight persons were located in other locations. See also Item 6.E “Directors, Senior Management and Employees – Employees.”

*Indirect Sales and Strategic Collaborations.* Over the course of the past several years, we have focused on developing long-term strategic partnerships with distributors and other business partners, including leading global partners such as Medtronic and Philips Respironics:

- *Co-Marketing Agreement with Medtronic, Inc.* - In April 2015, we entered into a co-marketing agreement with Medtronic, Inc., an indirect wholly owned subsidiary of Medtronic plc. Medtronic currently markets and sells its cardiac ablation products for the treatment of cardiac arrhythmias, including atrial fibrillation condition. Under the co-marketing agreement, Medtronic was granted exclusive rights to co-market, with us, our WatchPAT products within our Total Sleep Solution framework to electrophysiologists (physicians who specialize in cardiology arrhythmias) in the United States. See also Item 7.B “Related Party Transactions – Medtronic Co-Marketing Agreement.”
- *Distribution Agreement with Philips Respironics GK* - In February 2014, we entered into a distribution agreement with Philips Respironics GK, a subsidiary of Koninklijke Philips NV (also known as Royal Philips), or Philips Japan, which was renewed in December 2018 for an additional three years' period until December 2021. Under the distribution agreement, Philips Japan was granted exclusive rights to distribute our WatchPAT products and ancillary accessories in Japan. According to this agreement, we may terminate the agreement if Philips Japan does not meet certain minimum purchase requirements of our products. See also Item 5.A “Operating Results - Critical Accounting Policies and Significant Judgments and Estimates - Revenue Recognition” and Item 10.C “Material Agreements – Philips Japan Distribution Agreement” below.

In order to promote our Total Sleep Solution program, we are also developing partnerships with various business partners whose products or services are complimentary to ours. For example, we have entered into agreements with Philips U.S., an affiliate of Philips Japan, under which (1) we were granted non-exclusive rights to distribute Philips U.S. sleep apnea treatment devices, such as CPAP devices, to DMEs that participate in our Total Sleep Solution program to cardiovascular centers in the United States, and (2) Philips U.S. allowed us to use its cloud-based CPAP data as part of our SlepPath platform.

While we view our partnerships with Medtronic, Philips Respironics and other business partners as strategic, our direct sales represented more than 75% of our total revenues in each of the years ended December 31, 2018 and 2017.

*Marketing.* Our marketing efforts are focused on developing a strong reputation with physicians and hospitals that we have identified as key opinion leaders in cardiology, sleep, and internal medicine based on their knowledge of our technology, clinical expertise and reputation. We do so by various marketing channels, including hosting clinical education programs and symposium and participating in professional conferences to promote our products and increase awareness amongst physicians, primarily cardiologists, to the linkage between sleep apnea and CVD and to the advantages of shifting the point of care for sleep apnea from sleep centers to the cardiology care point.

### **Third Party Reimbursement**

*General.* In the United States and elsewhere, demand for our products is dependent to a large extent on availability of reimbursement from third-party payors, including governmental payors, such as Medicare and Medicaid, and private payors, such as medical insurance providers. The manner in which reimbursement is sought and obtained varies based upon the type of payor involved and the setting in which the product is furnished and utilized. In general, third-party payors will provide coverage and reimbursement for medically reasonable and necessary procedures and tests that utilize medical devices and may provide separate reimbursement codes and payments for HSATs, such as our WatchPAT device and related professional and technical services. However, our Endo PAT product has not obtained, and we do not expect it will obtain, coverage or reimbursement from third-party payors. In determining payment rates, third-party payors are continuously scrutinizing the costs of medical products and services.



*United States.* The American Medical Association, or AMA, has developed a coding system known as the Current Procedural Terminology, or CPT, codes, which have been adopted by the Medicare program to describe and develop payment amounts for certain physician services. The Medicare Physician Fee Schedule uses CPT and other codes as part of the determination of allowable payment amounts to physicians. In determining appropriate payment amounts, the Medicare and Medicaid Services, or CMS, receive guidance from the AMA and CPT codes are assigned by either the AMA (for CPT codes) or CMS (for Medicare specific codes).

In November 2010, the AMA granted the WatchPAT a CPT code category I - 95800, or CPT 95800, thereby confirming the WatchPAT device as a commercial clinical product for test administration, which encouraged commercial third-party payors, such as Aetna, Signa, United and others, to update their coverage policies to include CPT 95800 and, thereby, the WatchPAT. In March 2017, AASM published guidelines establishing updated clinical practice recommendations for the diagnosis of OSA in adults, pursuant to which devices that measure (1) a minimum of the following sensors: nasal pressure, chest and abdominal respiratory inductance plethysmography, and oximetry, or (2) PAT with oximetry and actigraphy, such as our WatchPAT device, are technically adequate to diagnose OSA, and therefore recommended for OSA diagnosis. These AASM guidelines facilitated a positive coverage decision by AIM Specialty Health, or AIM, a specialty benefit management company who advises many U.S. health insurance plans on coverage policies, and, in November 2017, AIM updated its guidelines to include CPT 95800. This resulted in expanded coverage to multiple BCBS payors across the country.

To our knowledge, currently only a few domestic health insurance plans do not offer coverage of CPT 95800, with Blue Cross Blue Shield of California being the largest one. Nevertheless, in general, most Medicaid payors currently do not cover HSATs, such as our WatchPAT. In addition, while private healthcare insurers often follow reimbursement policies adopted by Medicare, this is not always the case and the reimbursement terms of different private insurers vary. We invest, and plan to continue to invest, resources in efforts to have our WatchPAT device reimbursement code adopted by private healthcare insurers.

*International.* In other markets outside the U.S., HSAT has been endorsed to different degrees. For example, in Sweden, which is characterized with scattered population, HSATs have been promoted as the only means of diagnosis, and, in Germany, an HSAT is the first-line diagnosis tool and PSG is only allowed if multiple HSAT attempts failed to deliver conclusive diagnosis. On the other hand, in Japan, local authorities (namely, the Ministry of Health Labour and Welfare of Japan, or MHLW) have limited HSAT clearance to diagnose OSA for the purpose of prescribing therapy to those patients who are categorized as suffering from severe OSA (the MHLW set an AHI threshold of 40), and, to our knowledge, PSG remains the dominant means of sleep apnea diagnosis. In addition, in many foreign markets, including the countries in the European Union, pricing of medical devices is subject to governmental control. To our knowledge, WatchPAT is covered by medical insurance to different degrees in Japan, the UK, The Netherlands, Sweden, Germany, Switzerland, Italy, Israel and few smaller countries.

*Outlook.* In the United States, there have been, and we expect that there will continue to be, a number of federal and state proposals to limit payments by governmental payors for medical devices, and the procedures in which medical devices are used. For example, in March 2010, comprehensive healthcare reform legislation was enacted through the passage of The Patient Protection and Affordable Care Act, or PPACA, which entails significant initiatives to revise Medicare payment methodologies. The PPACA also includes taxes impacting certain health-related industries, including medical device manufacturers. We cannot predict whether future healthcare initiatives will be implemented at the federal or state level or internationally, or the effect any future legislation or regulation will have on us. Such legislation and regulation of healthcare costs may, however, result in decreased lower reimbursements by governmental and private payors for our products, which may adversely affect our business, financial condition and results of operations.

### **Seasonality**

We have not identified seasonal effects in relation to a specific quarter or quarters in our business. However, in the past several years, the results of our first quarter were typically weaker than other quarters, which may be due to some of our customers capital expenditures cycles, which are not in our control.

### **Competition**

Our industry is subject to rapid change from the introduction of new products and technologies and other activities of industry participants. In particular, the sleep tests' marketplace is highly competitive and has relatively few barriers to entry. We believe that the primary competitive factors affecting sales of our products and related services are:

- market acceptance by physicians and key opinion leaders, especially within the cardiology market;
- obtaining required local regulatory approvals or licenses for the sale of our products in the pertinent territories;
- obtaining insurance reimbursement status from the relevant third party payors, especially within the United States;
- company, product and brand recognition;
- product efficacy, safety, reliability and durability;
- product ease of use and patient comfort; and
- technological innovation, product enhancements and speed of innovation.

We compete primarily with international and local vendors of sleep tests, including in the following main categories:

- *PSG tests*: PSG systems are provided by several companies, including Philips U.S. (part of Philips Medical), Embla, Nihon Kohden, Viasys Healthcare, Puritan Bennett, Cadwell Laboratories, Cleavemed, Stellate Healthcare, Grass Technologies (a subsidiary of Astro-Med Inc.). As more fully described under “*Our Products and Services - The WatchPAT - Key Benefits of WatchPAT*” above, we believe that HSATs in general, and our WatchPAT products in particular, are competitive in price and features and have certain advantages as compared to PSG tests;
- *HSATs (PSG)*: Suppliers of home sleep testing for diagnostic purposes that offer devices that perform full PSG tests at home, such as Embla and Aura-Grass, which, consequently, typically do not provide a significant cost benefit relative to in-lab PSG tests;
- *HSATs*: Suppliers of home sleep testing for diagnostic purposes that offer ambulatory systems, such as Embletta MPR (provided by Embla Systems), Apnea Link Air (provided by ResMed Corp.), ARES (provided by SleepMed Inc.), Alice NightOne (provided by Philips U.S.) and Nox T3 (provided by Nox Medical), which devices typically measure four to five parameters (compared to the seven parameters measured by WatchPAT), and lack measurement of sleep stages or total sleep time (TST) when not used with EEG (which, to our knowledge, is used only by ARES, which provides total sleep time by a device placed on the forehead with built-in EEG electrodes) and all of which also require nasal cannula. As more fully described under “*Our Products and Services - The WatchPAT - Key Benefits of WatchPAT*” above, we believe that, while our WatchPAT products may be more expensive than such HSATs, they offer various features and advantages as compared to such HSATs; and
- *Pulse oximetry devices*: Suppliers of pulse oximetry devices, such as Nonin and Masimo. In contrast to diagnostic devices, pulse oximetry devices that only measure one or two physiological parameters (oxygen saturation and motion) participate in the sleep space mostly as a screening tool.

Many of these competitors and potential competitors have significantly greater financial, human and other resources than we do, and have established relationships with healthcare professionals, customers and third-party payors. In addition, many of our competitors are more established globally and better positioned with sales and distribution networks, greater resources for product development, additional lines of products and the ability to offer financial incentives that we cannot provide. Our products and services could also be rendered obsolete or uneconomical by technological advances developed by one or more of our competitors.

## **Intellectual Property**

*General.* Our intellectual property and proprietary technology are important to the development, manufacturing, and sale of our current and future pipeline products. We seek to protect our intellectual property, core technologies and other know-how through a combination of patents, copyrights, trademarks, trade secret laws, non-disclosure and confidentiality agreements and other contractual arrangements with our employees, consultants, partners, suppliers, customers and others. We primarily rely on our own research and development efforts to enhance and develop our technology and products although, in some instances that do not involve our core competencies, such as with CloudPAT, we choose to license customized platforms from third parties.

*Patents.* To date, we had been granted a total of 119 patents and have 13 pending national phase applications. The family of patents that specifically covers WatchPAT consists of 61 granted patents worldwide and 12 pending patent applications, while Endo PAT is covered by 28 granted patents worldwide and one pending patent application. In addition, we have 30 granted patents, which relate to features which are common to both WatchPAT and Endo PAT.

We submit applications under the Patent Cooperation Treaty, or PCT, an international patent law treaty that provides a unified procedure for filing a single initial patent application to seek patent protection for an invention simultaneously in each of the member states. Although a PCT application cannot be issued as a patent, it allows for the applicant to seek protection in any of the member states through national-phase applications. National phase applications are examined by the allocable authorities in each member state in which we elect to file an application. In addition, during the national phase under the PCT, we can also elect to file an application in Europe, in which case we will not be required to file a separate state specific application for each member state in Europe, until such time as the European application is granted a patent, whereupon state specific validations may subsequently be selected.

The main patents of both our WatchPAT and Endo PAT technology have been issued or are currently pending, in the United States, Japan, Europe and other international markets. Most of our patents and patent applications cover our technology around possible methods of measuring the PAT signal and the application thereof.

Absent patent-term extensions, several key patents and pending patent applications for (1) the WatchPAT are nominally set to expire between 2021 and 2037 in Europe, Japan, and other foreign jurisdictions and between 2022 and 2037 in the U.S. and (2) the Endo PAT are nominally set to expire between 2021 and 2025 in Europe, Japan and other foreign jurisdictions and between 2022 and 2030 in the United States. While the original patent covering the PAT signal and certain embodiments thereof expired in June 2017, we believe that since our products have undergone substantial development and changes since our original products were first introduced, our current products should be protected in the U.S., Japan, and many other countries by newer supplemental patents that we obtained and which are scheduled to expire between 2022 and 2030. However, we cannot be sure that any of our patents will be commercially useful in protecting our technology. Moreover, while our policy is to obtain patents by application, license or otherwise, to maintain trade secrets and to seek to operate without infringing on the intellectual property rights of third parties, technologies related to our business have been rapidly developing in recent years. Additionally, patent applications that we may file or license from third parties may not result in the issuance of patents, and our issued patents and any issued patents that we may receive in the future may be challenged, invalidated or circumvented. If third parties prepare and file patent applications that also claim technology to which we have rights, we may have to partake in proceedings to determine priority of invention, which could result in substantial costs to us, even if the eventual outcome is favorable to us. Moreover, because of the extensive time required for clinical development and regulatory review of a product we may develop, it is possible that, before our products can be fully commercialized or commercialized in additional jurisdictions, related patents will have expired or will expire a short period following commercialization, thereby reducing the advantage of such patent. *For a more comprehensive discussion of the risks related to our intellectual property, see "Risk Factors – Risks Related to Our Intellectual Property".*

*Other.* In addition to patent protection, we also rely on trade secrets, including unpatented know-how, technology innovation, technical specifications and other proprietary information, as well as trade names, trademarks and service marks and non-disclosure and confidentiality agreements and other contractual arrangements with our employees, consultants, partners, suppliers, customers and others in attempting to develop and maintain our competitive position. We have obtained trademark registrations in the U.S. for, among others, PAT, Endo PAT, WatchPAT, EndoScore, ITAMAR, CloudPAT and SleepPath and some of them are also registered in additional jurisdictions, including Europe, Japan, Canada, China, India, Russia, Mexico, Korea and Singapore.

However, our trade secrets may become known or be independently discovered by competitors, our confidentiality agreements may be breached, and our tradenames may not achieve the brand recognition that we pursue. *For a more comprehensive discussion of the risks related to our intellectual property, see "Risk Factors – Risks Related to Our Intellectual Property".*

## **Research and Development**

We devote a significant amount of our resources towards research and development in order to introduce new products and continuously enhance existing products and to support our growth strategy. We have assembled a core team of experienced research and development professionals as well as an advisory board comprised of experts in their respective fields. These professionals are involved in advancing our core technologies, as well as in applying these core technologies to our product development activities.

In order to carry our research and development activities, which take place primarily in Israel, we maintain teams in the following areas: physiology, hardware development, software, algorithms, data processing, clinical application development and clinical trials. As of December 31, 2018, we had 17 full-time employees engaged in research and development.

Since our incorporation, we have been engaged in the research of the PAT signal, as well as in the continuous research and development of our PAT-based technology and additional products and applications based on this technology, including in conjunction with additional technologies.

As part of our research and development activities, we also initiate or monitor, from time to time, clinical and research collaborations, such as with academic centers, in order to, among other things, achieve scientific backing of our products; promote recognition of our products within the medical community; support, where necessary, regulatory authorizations required to market and sell our products in applicable territories, and to examine the applicability of our products in various clinical markets, particular population groups and various comorbidities. During 2017 and 2018, we initiated or sponsored clinical trials in connection with our WatchPAT and Endo PAT products, the main purpose of which was to develop new indications for such products and obtain results comparing the use to such products to other products, in order to support applications for authorizations to market and sell our products in additional territories.

*See also Item 5.C “Research and Development, Patents and Licenses.”*

## **Manufacturing and Supply**

Our products consist of off-the-shelf and custom made components. Our manufacturing, quality assurance testing, final integration, packaging and shipping operations as well as our final assembly activities are primarily performed at our facility in Caesarea, Israel, where we employed, as of December 31, 2018, 57 full-time employees.

We engage various suppliers and subcontractors who deliver us materials and components used in our products, including plastic and electronic components, as well as development services and database management services. We also engage subcontractors, on an as needed basis, to manufacture finished products, based on our product specifications and requirements. We are not bound by any minimum purchase volume undertakings with such subcontractor. Engaging subcontractors to manufacture our finished products on an as needed basis, in addition to our own manufacturing work force, allows us flexibility to manage and meet our manufacturing goals and we believe that our manufacturing capacity, comprised of our own manufacturing work force and of our suppliers and subcontractors, is suitable and adequate for our operations as currently conducted and as currently foreseen.

We typically engage our subcontractors by means of a renewable frame work agreement or by a particular purchase order. We aim to engage different subcontractors in various locations, to reduce any potential dependency in any particular subcontractor. In addition, we believe that there are sufficient alternative subcontractors in the market, which would allow us to replace any subcontractor, if necessary, though such replacement may be a lengthy process. In addition, if needed, we may transfer some to the final assembly stages, to our own manufacturing facility.

As of the date of this annual report, several of our subcontractors are single source subcontractors. Depending on the type of such subcontractors and the alternative we choose (such as using alternative subcontractors and manufacturing the component ourselves), we estimate that replacement of such single source subcontractors may range between six and twelve months. In addition, while we were not able to identify an alternative supplier for a component incorporated in one of our older models of the WatchPAT, which model we only sell in China, we plan to obtain regulatory approval to sell our more advanced WatchPAT product model in China. Nevertheless, there is no assurance if and when we will obtain such approval. Due to their nature, certain components must be ordered from such single source subcontractors a few months in advance, resulting in substantial lead time. In the event that such limited source suppliers are unable to meet our requirements in a timely manner, we may experience a limited interruption in production until we can obtain an alternate source of supply. See “Risk Factors—Risks Related to Our Business— We are dependent upon third-party manufacturers and suppliers, which make us vulnerable to supply disruptions” and “Risk Factors—Risks Related to Our Business— Long lead times required by certain suppliers could prevent us from meeting the demand for our products. If we do not accurately forecast such demand, our operating results could be adversely affected. However, as explained above, we take various steps in order to mitigate this risk, including by (1) providing our relevant suppliers with a purchasing forecast and estimate of future orders, (2) requiring such single source subcontractors to provide us long prior notice should the subcontractor wish to terminate our agreement, and (3) we constantly hold safety inventory stock sufficient to meet our estimated manufacturing forecasts, aligned with the lead time of each component.

We believe that our manufacturing processes and our subcontractors’ manufacturing processes are in compliance with pertinent U.S. and international quality and safety standards, such as ISO 9001:2000 and the FDA’s quality system regulations.

## Government Regulations

### *Overview*

We must comply with the laws, regulations and standards applicable to our activities in the countries in which we operate. In particular, we are subject to laws, regulations and standards applicable to our manufacturing activities as well as to laws and regulatory requirements in each country in which we market and sell our products, including the United States, Europe, Japan, Israel and, until January 1, 2019, Canada. In each country where we seek to market and sell our products, we typically need to first obtain a local approval or clearance allowing us to market and sell our products in the pertinent territory. The requirements, length of time and costs associated with obtaining such local approvals differ from country to country. Depending on the pertinent territory, we either hold such approvals independently or through a local subsidiary or through a local partner with whom we maintain a contractual arrangement securing our rights in such marketing and sales approvals, such as in Japan where our partner, Philips Japan, is the one holding the marketing approval. Except as described below, the WatchPAT related services and accessories (see under the section titled “Our Products and Services - WatchPAT Related Services and Accessories”) that we currently offer, do not require any separate sale or marketing regulatory approval or clearance beyond the ones we obtained for (or included in) the WatchPAT as described below.

We are also subject to announced and unannounced audits by such regulatory bodies, primarily of our manufacturing facility in Israel. Our products and operations are also often subject to the rules or norms of industrial standards bodies, such as the International Standards Organization (ISO) or the rules of associations of healthcare professionals. For example, in the U.S. we maintain certifications of a Nationally Recognized Testing Laboratory, or NRTL, which is a third-party organization that certifies products for the North American market. NRTLs are recognized by the Occupational Safety and Health Administration (OSHA) under U.S. deferral regulations to provide product safety testing and certification for products to be used in the U.S. workplace. Future products, or components thereof, may also be subject to regulation by the Federal Communications Commission, or the FCC, formed by the Communications Act of 1934 due to inclusion of digital or communication components.

In addition, we are subject to medical device reporting regulations under the FDA regulations as well as under applicable foreign regulations in the countries in which we market and sell our products. While the specifics of the reporting regulations in each country in which we market and sell our products may vary, we are generally required to report adverse events or incidents about which we received or become aware of information that reasonably suggests that one of our marketed devices or a malfunction of such device has caused or may have caused or contributed to a death or serious injury, or of a recurring malfunction likely to contribute to death or a serious injury. The decision of whether an adverse event or incident is reportable under the applicable regulations requires our management’s judgment. Any adverse event or incident involving our products could result in regulatory actions, such as inspection and mandatory product recalls, as well as voluntary corrective actions that we may initiate for various reasons, such as product recalls or customer notifications.

In Israel, the U.S., Europe and other territories we are also subject to environmental regulations governing the use of certain hazardous materials, such as RoHS and RoHS II, EU directives that require products sold in Europe to meet certain design specifications, which exclude the use of hazardous substances; REACH, an EU regulation covering the registration, evaluation, authorizations and restriction of chemicals; and EU Directive 2002/96/EC on Waste Electrical and Electronic Equipment (known as the “WEEE” Directive), which requires producers of electrical and electronic equipment to register in different European countries and to provide collection and recycling facilities for used products.

We invest resources in order to maintain our regulatory compliance, successfully pass audits and maintain our certifications and marketing and sales approvals.

### *The United States Market*

The development, manufacturing, marketing and sales and post sales of medical devices, including our products, is subject to the regulation of the U.S. Food and Drug Administration, or the FDA, pursuant to the Federal Food, Drug and Cosmetic Act of 1938, as amended, or the FDCA, and regulations promulgated thereunder. The FDA requirements include, among others, manufacturing quality control requirements in accordance with current good manufacturing practices (cGMP) regulation, compilation of scientific reports with respect to our products, appointment of the U.S. agent, and adhering to auditing and supervision by the FDA of our manufacturing facility. We are required to accommodate our manufacturing facility to the FDA requirements, such as the requirements of the Registrars Quality Systems, or QRS, which may be reviewed by the FDA periodically. We and the third-party manufacturers on which we rely for the manufacture of our products and their respective components are subject to requirements that our products be manufactured, packaged and labeled in conformity with cGMP. To comply with cGMP requirements, manufacturers must continue to spend time, money and effort to meet requirements relating to personnel, facilities, equipment, production and process, labeling and packaging, quality control, recordkeeping and other requirements. We are also required to comply with regulatory requirements which may be set forth by particular states.

Generally, unless an exemption applies, each medical device that we propose to market in the U.S. must first receive one of the following types of FDA authorizations:

- premarket notification under Section 510(k) of the FDCA, to which we refer as a 510(k) clearance; or

- premarket approval under Section 515 of the FDCA, or PMA. The applicant may also submit a De novo application, in which case the regulator shall determine whether the device shall be classified from class III to class II or class I, with new classification or regulation.

Under the FDCA, medical devices are classified into three classes - Class I, Class II or Class III, depending on the level of risk associated with the medical devices. While the requirements in respect of Class I devices are less burdensome and such devices are generally exempt from the submission of an application for authorization (although are still required to comply with FDA controls), Class II devices require submission to the FDA of a 510(k) clearance, requesting permission to commercially distribute the device, whereas Class III devices, which pose the greatest risks to patients, require submission of a PMA.

To date, all our devices (excluding our CloudPAT, which is exempt and listed as a medical device data system) were classified as Class II devices. A 510(k) clearance, submitted in connection with our Class II medical devices, must demonstrate that our device is “substantially equivalent” to another commercially available device that was cleared under the 510(k) process or previous legislation. Class II devices such as our devices are subject to the FDAs General Controls as well as to special controls determined by the FDA, to ensure the safety and effectiveness of the device. Such special controls may include performance standards, post-market surveillance, patient registries and FDA guidance documents.

We currently have FDA clearance, through the 510(k)-clearance path, for our WatchPAT200/U, WatchPAT300 and Endo PAT 2000. Our CloudPAT is listed separately as a medical device data system that is exempt from such FDA clearance.

### *The European Market*

In the European market, our devices are regulated by the European Union National Competent Authorities, or the NCAs, of the Member States of the European Economic Area, or the EEA. Generally, in order to market and sell our devices in the EEA, we must submit an application to a Notified Body, an entity that has been accredited by an EU member state to assess whether medical devices (or other products) conform to predefined standards. In the case of medical devices, the Notified Body assess whether medical devices, such as ours, conform with the applicable E.U. Medical Devices Directive, which defines the standards for medical devices. Such conformity assessment may include inspection and examination of a product, its design, and the manufacturing environment and processes associated with it. With this Declaration of Conformity, the manufacturer can label the medical device with the CE Mark, which is required for distribution and sale in the EU. Additionally, the EU member state accrediting the Notified Body will then inform the European Commission that the product complies with set standards. The CE marking is a certification mark that indicates conformity with health, safety, and environmental protection standards for products sold within the EEA. Obtaining a CE mark allows us to market and sell our products in the European Union as well as in the EFTA states (Iceland, Lichtenstein, Switzerland and Norway) and allows the enforcements agencies in such states not to approve the marketing and sale of similar products which do not bear the CE mark. While the CE mark allows us to market and sell our devices in most EEA states, certain states, such as Italy and Spain, also set forth their own local specific requirements, which differ from state to state, with which we must comply in addition to the CE mark requirements.

Pursuant to the European conformity directive regarding medical devices (Medical Devices Directive 93/42/EEC, as amended by amended by Directive 2007/47/EC), or the EEC directive, as manufactures of medical devices, we are also required to comply with the European Conformity requirements and are also subject to auditing by Notified Bodies once a year, and to an unannounced audit once every three years. The new European Medical Devices Regulation, or MDR, which was published in May 2017 with a transition period of three years, replaces the Medical Devices Directive (93/42/EEC). Starting May 2020, the new MDR will apply and no new applications under the previous directives will be permitted. During the said three-year transition period, we will need to update our technical documentation and other quality management system processes to meet the new MDR requirements.

During 2017, we decided to transition to a new Notified Body. As part of the transition, a quality audit was performed and the technical dossier of one product was reviewed. In January 2018, we received a new CE certificate from our new Notified Body, BSI Group, bearing an expiration date of October 10, 2019, the same expiration date as the previous certificate issued by our former Notified Body, for our WatchPAT200/U (including one of its probes) and Endo PAT 2000, to which we refer as the main certificate. In addition, we have obtained a CE certificate for our accessories, such as probes and sensors that we sell for use with such products, to which we refer as the accessory certificate, which certificate does not bear any expiration date (and is not required to be issued by a Notified Body like the main certificate). It should be noted that under the MDR requirements, CE certificates issued under the previous directives prior to May 2020 shall remain valid in accordance with their term, beyond the expiration of the transition period, however certain limitations set forth in the MDR, such as the need to use classifications that are different from the previous directives, would apply. We do not expect such limitations to have any material impact on our ability to maintain our accessory certificate (or obtain a new one if such new classifications shall apply) beyond May 2020.

We currently have a CE mark for our WatchPAT200/U, Endo PAT 2000 and WatchPAT300 (which, for the WatchPAT300, was granted in February 2019).

#### *The Japanese Market*

In Japan, the Pharmaceutical Medical Devices Authority, or PMDA, is the regulatory body supervising and regulating the marketing and sale of medical devices such as our products, similarly to the FDA. In order to market and sell medical devices, such as ours, in Japan, we must comply with Japan's Pharmaceuticals and Medical Devices Act, or the PMDA Act. Among other requirements, as part of the approval process, medical device manufacturers must comply with the MHLW Ordinance No. 169 related to quality management systems, register design and manufacturing facilities, and appoint an in-country representative, also known as MAH/D-MAH.

We currently hold PMDA authorizations to market and sell our WatchPAT200/U and Endo PAT 2000 in Japan. Such authorizations are held by the local MAH/D-MAH with whom we maintain a contractual engagement.

#### *The Canadian Market*

Health Canada is the Canadian authority supervising and regulating the marketing and sale of medical devices such as our products, similarly to the U.S. FDA.

We previously had authorizations of Health Canada to market and sell our WatchPAT200/U and Endo PAT 2000. However, in August 2018, we announced that we will not renew such authorizations and therefore have ceased offering our products for sale in Canada starting January 2019.

#### *The Israeli Market*

*General.* All of our products are approved for sale and distribution in Israel by the Israeli Ministry of Health. Our manufacturing activities in Israel are also subject to regulation by the Israeli Ministry of Health. In addition to marketing and selling our products, we or our partners also must obtain pertinent approvals or permits to perform our clinical trials in the countries in which we perform such trials, such as in compliance with an international guideline for the ethical conduct of clinical research known as the Declaration of Helsinki. In Israel, our clinical trials require a permit for a research plan (protocol) by the Helsinki Committee, operating under the Israeli People's Health Regulations (Human Subject Research), 1980.

*Israeli Innovation Authority.* From time to time, eligible participants may receive grants under programs of the IIA. Grants received are generally repaid through a mandatory royalty based on revenues from the sale of products (and ancillary services) incorporating know-how developed, in whole or in part, with the grants. This governmental support is conditioned upon the participant's ability to comply with certain applicable requirements and conditions specified in the IIA's programs and the R&D Law.

Under the R&D Law, research and development programs that meet specified criteria and are approved by the Research Committee of the IIA are eligible for grants of, usually, up to 66% of certain approved expenditures of such programs, as determined by said committee. In exchange, the recipient of such grants is required to pay the IIA royalties from the revenues derived from products incorporating know-how developed within the framework of each such program or derived therefrom (including ancillary services in connection therewith), up to an aggregate of 100% of the dollar-linked value of the total grants received in respect of such program, plus interest.

The R&D Law also provides that know-how developed under an approved research and development program or rights associated with such know-how (1) may not be transferred to third parties in Israel without the approval of the IIA (such approval is not required for the sale or export of any products resulting from such research or development); and (2) may not be transferred to any third parties outside Israel, except in certain special circumstances and subject to the IIA's prior approval, which approval, if any, may generally be obtained, in the following cases: (a) the grant recipient pays to the IIA a portion of the sale price paid in consideration for such IIA-funded know-how (according to certain formulas, which may result in repayment of up to 600% of the grant amounts plus interest), or (b) the grant recipient receives know-how from a third party in exchange for its IIA-funded know-how. Such approval is not required for the export of any products resulting from such research or development.

The R&D Law imposes reporting requirements with respect to certain changes in the ownership of a grant recipient. The law requires the grant recipient and its controlling shareholders and foreign interested parties to notify the IIA of any change in control of the recipient or a change in the holdings of the means of control of the recipient and requires a non-Israel interested party to undertake to the IIA to comply with the R&D Law. In addition, the rules of the IIA may require additional information or representations in respect of certain of such events. For this purpose, “control” is defined as the ability to direct the activities of a company other than any ability arising solely from serving as an officer or director of the company. A person is presumed to have control if such person holds 50% or more of the means of control of a company. “Means of control” refers to voting rights or the right to appoint directors or the chief executive officer. An “interested party” of a company includes a holder of 5% or more of its outstanding share capital or voting rights, its chief executive officer and directors, someone who has the right to appoint its chief executive officer or at least one director, and a company with respect to which any of the foregoing interested parties owns 25% or more of the outstanding share capital or voting rights or has the right to appoint 25% or more of the directors. Accordingly, any non-Israeli who acquires 5% or more of our ordinary shares will be required to notify us that it has become an interested party and to sign an undertaking to comply with the R&D Law.

The Israeli authorities have indicated in the past that the government may further reduce or abolish the IIA grants in the future. Even if these grants are maintained, we cannot presently predict what would be the amounts of future grants, if any, that we might receive. In addition, an amendment to the R&D Law that became effective on January 1, 2016, provides the IIA with authority to establish new guidelines regarding the R&D Law, which may affect our existing and/or future IIA programs and incentives for which we may be eligible. We cannot predict what changes, if any, the IIA may make.

Our research and development efforts for the development of Endo PAT 3000, a new generation of our Endo PAT product, during the period between 2003 and 2005, were financed in part through royalty-bearing grants from the IIA, in a total amount of approximately \$0.9 million. The amount of the grants including interest accrued through December 31, 2018 is approximately \$1.05 million. Since we have ceased our development efforts of Endo PAT 3000 and do not intend to use the know-how developed with the support of these grants in any of our other products in the near future, we believe that the terms of these IIA royalty-bearing grants mean that we are not required to repay these grants to the IIA. However, in 2009 the IIA informed us that we must pay royalties on the sale of all of our products since 2012 and, since then, we have been in discussions with the IIA in an attempt to resolve this disagreement. While we disagree with the IIA demand, there is no assurance that we will necessarily prevail in opposing this demand. Since we made a full accrual in our financial statements for such possible liability, even if we do not prevail, the primary effect will be on our cash flows and financial condition.

#### C. ORGANIZATIONAL STRUCTURE

Our wholly owned subsidiaries act primarily as sales, marketing and customer service organizations in the countries where they are incorporated and in most instances for neighboring countries. The following table sets forth the legal name, location and country of incorporation and percentage ownership of each of our current principal operating subsidiaries:

Subsidiary Name	Country of Incorporation	Ownership Percentage
Itamar Medical, Inc.	Delaware, United States	100%
Itamar Medical Japan Co. Ltd.*	Japan	100%
I.M.E. 2016 B.V.	The Netherlands	100%

\* Currently in the process of dissolution.

#### D. PROPERTY, PLANTS AND EQUIPMENT

*General.* Other than the leased properties described below, we do not own or lease any material tangible fixed assets. We believe that these offices and facilities are suitable and adequate for our operations as currently conducted and as currently foreseen. In the event additional or substitute offices and facilities are required, we believe that we could obtain such offices and facilities at commercially reasonable rates.

*Israel.* Our headquarters, manufacturing and research and development facilities as well as sales offices are located in the Northern Caesarea Business Park, Caesarea, Israel, where we lease approximately 14,000 square feet of office space pursuant to a lease that is currently scheduled to expire in July 2021. The aggregate annual rent for our Israeli office facility was approximately \$318,000 in 2018, compared with \$309,000 in 2017. We provided our Israeli office lessor with a bank guarantee in the amount of approximately \$171,000 to secure our obligations under the lease.

In addition to the above, we lease storage facilities in the Northern Caesarea Business Park, Caesarea, Israel, where we lease approximately 1,900 square feet of storage space pursuant to a lease that expires in June 2021. The aggregate annual rent for our current Israeli storage facility was approximately \$33,000 in 2018, compared with \$29,000 in 2017. We provided our Israeli storage space lessor with a bank guarantee in the amount of approximately \$15,000 to secure our obligations under the lease.



*Other Locations.* We lease approximately 10,900 square feet of office space in Atlanta, Georgia, pursuant to a lease that expires in March 2022, with an option for us to extend the term of the lease until March 2025. The aggregate annual rent of such facility was approximately \$192,000 in 2018, compared with \$186,000 in 2017. We provided our U.S. office lessor with a bank deposit in the amount of approximately \$18,000 and a bank guarantee in the amount of approximately \$109,000 (which will be reduced by approximately \$27,000 each year) to secure our obligations under the lease.

**ITEM 4A. UNRESOLVED STAFF COMMENTS**

Not applicable.

**ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes included elsewhere in this annual report. The discussion below contains forward-looking statements that are based upon our current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from these expectations due to inaccurate assumptions and known or unknown risks and uncertainties, including those identified under “Cautionary Note Regarding Forward-Looking Statements” and under “Risk Factors” elsewhere in this annual report.*

**A. OPERATING RESULTS**

**Overview**

*Introduction*

We are a medical technology company that designs, develops, manufactures and sells sleep apnea diagnostic ambulatory products and related services.

We believe a key competitive differentiator for us is the use of the PAT biological signal along with other measurements, such as actigraphy, heartrate, chest motion, body position and snoring. All of these inputs are analyzed by our proprietary technology and algorithms.

Our PAT-based technology is implemented in a simple to use non-invasive watch-like wrist worn device called WatchPAT that uses a finger mount bio-sensor to measure and record the PAT signal, which is then transferred to either a local (zzzPAT) or cloud-based (CloudPAT) software for analysis and reporting of sleep apnea diagnosis. The results of our proprietary analysis are automatically populated into an easy to read report that allows physicians to make accurate diagnosis of sleep apnea.

Our Total Sleep Solution (TSS) is a comprehensive marketing program we offer to physicians that combines products and services, including our proprietary diagnostic test and data analytics as well as access to resale of third party sleep apnea treatment devices and a network of IDTFs and DMEs. TSS is designed to allow any medical practice or physician that is not a sleep physician by specialty, easy access to a comprehensive suite of products and services for the diagnosis, treatment and management of patients they suspect suffer from sleep apnea. We believe the combination of our proprietary test combined with the ease of single point of contact management of the diagnosis and treatment of sleep apnea provided by TSS has been a driver of the increased usage of our tests. Specific products and services included in the TSS program include CloudPAT and SleePath for cloud-based data and information mobilization solutions, access to the resale of sleep apnea therapeutic products such as CPAP devices, PAMS and MADs, related services and logistical solutions such as WatchPAT Direct.

Since 2015, we have focused on offering TSS to the cardiology market through various business models, however the Test as a Service (TaaS), also known CPT model, is the primary model we utilized to date. In the TaaS model, the medical practice or physician ordering the TaaS pays a fixed fee per HSAT that includes all the components associated with the test, including the disposable biosensor, hardware rental fees and access to our CloudPAT platform.

Since our incorporation in 1997, we have incurred operating and net losses in most of our years of operation and, as of December 31, 2017, we had an accumulated deficit of \$105 million. We expect to continue to incur operating and net losses for the foreseeable future, as we continue to invest in research and development and marketing and sales operations aimed at growing our business.

In the years ended December 31, 2018, 2017 and 2016, we have generated revenues of \$24.2 million, \$20.7 million and \$18.4 million, respectively. We have grown our WatchPAT related product revenue from approximately \$15.7 million for the year ended December 31, 2016 to \$22.4 million for the year ended December 31, 2018, reflecting a growth rate of 16.8% in the year ended December 31, 2018, and of 12.3% in the year ended December 31, 2017.

*For recent business events and key milestones, see under Item 4.A “Information on the Company - History and Development of the Company - Recent Major Business Developments.”*

#### *Trend Information and Outlook*

We identified the following significant trends and uncertainties that we believe will continue to materially influence our market, financial condition and the demand for our products:

- We expect to continue to generate revenues mainly from the sales of our WatchPAT product in the United States, Japan Europe and China, which is consistent with our strategy to expand our sales of the WatchPAT in general and in those markets in particular. The level of our future revenues, however, is hard to predict and depends on many factors which are outside of our control.
- We expect that the sales of our Endo PAT product will remain at the same level or even continue to decrease primarily due to (i) our strategic decision to reduce our sales and marketing efforts for such product, (ii) the reduction of research funds available to research institutions, which represent the vast majority of customers who purchase this product from us, and (iii) the ongoing difficulties associated with obtaining coverage or reimbursement from third party payors for the use of such product for clinical use in the U.S.
- We market our products, directly or through our sales channels, primarily to health facilities, physicians and research institutions, many of whom rely on coverage or reimbursement for the healthcare services they receive or provide to their patients, from third-party payors, such as private insurance plans offered by medical insurance companies. Currently, many medical insurers cover or allow only partial reimbursement of expenses associated with medical tests that use our products. However, we believe that the changes in the guidelines issued by AIM and AASM in the past two years (see under Item 4.B “Information on the Company - Business Overview –Third-Party Reimbursement”) may lead to the inclusion by more medical insurers of the WatchPAT test in the basket of medical examinations and procedures covered. For example, in November 2018, CMS published the final CMS Physician Fee Schedule for 2019, or the 2019 Fee Schedule, which includes an update of the medical reimbursement fees for (i) CPT 95800, the reimbursement code which covers our WatchPAT devices (and, to our knowledge, may cover ARES, a competing ambulatory HSAT device which uses airflow and EEG) and (ii) CPT 95806, the reimbursement code which covers competing HSATs, which we believe may have a positive effect for us, as follows:
  - The total reimbursement code in the 2019 Fee Schedule consists of a technical equipment component (which covers the use of the device and, as an example, may be utilized by cardiologists) and a professional component (which covers the interpretation service provided by the sleep physician). Pursuant to the 2019 Fee Schedule, the coverage for the technical component of CPT 95806 will decrease in 2019 to approximately \$89.7, representing a decrease of approximately 19% from the 2018 coverage and the coverage for the professional component will decrease to approximately \$50.8, also representing a decrease of approximately 19% from the 2018 coverage. By comparison, the coverage for the technical component of CPT 95800 will increase to approximately \$129.3, representing an increase of approximately 2% from the 2018 coverage, and the coverage amount for the professional component will decrease to approximately \$43.3, representing a decrease of approximately 19% from the 2018 coverage. All in all, the total revised reimbursement code for CPT 95800 in 2019 will be \$172.6 (a decrease of approximately 4%, compared to 2018), whereas the total revised reimbursement code for CPT 95806 will be \$140.5 (a decrease of approximately 19%, compared to 2018).
  - We estimate that due to the reimbursement amounts set forth in the 2019 Fee Schedule, non-sleep physicians, such as cardiologists, may derive reimbursement higher by up to \$39.6 per test by using our WatchPAT device under CPT 95800 (as well as any other device that qualifies for such code), when compared with the use of competitive airflow-based HSAT products under CPT 95806.
  - We believe that the 2019 Fee Schedule provides additional demonstration of the acceptance of our WatchPAT device in the U.S. market and, consequently, may also have an impact on other medical insurers in the U.S. with respect to the use of WatchPAT and competing HSATs. In this respect, we note that, based upon, among other things, a CMS publication in 2018 regarding the number of home sleep tests conducted in the U.S. during 2016 and 2017, we estimate that tests conducted with WatchPAT represent approximately 15.0% and 15.6% of the total home sleep tests conducted in the United States in 2017 (approximately 1.4 million tests) and 2016 (approximately 1.1 million tests), respectively.

- The 2019 Fee Schedule also sets timetables for additional reductions (the particular amounts of which are not currently known to us, based on the information currently publicly available) in the amount of coverage for the technical equipment component for competing HSATs under CPT 95806, but, to our knowledge, without a corresponding decrease in CPT 95800.
- We estimate that the costs for our selling and marketing expenses will increase in future years, as we continue to build our business, including by expanding our footprint and the territories in which we operate.
- We also estimate that the costs for developing our products will increase in future years, as we execute our plan to develop new products and services, including new applications that are based on our PAT-based technology, to accelerate adoption by cardiologists.
- We estimate that our general and administrative expenses will increase, primarily due to the continued expansion of our management team as well as compliance costs associated with becoming subject to reporting and other requirements under applicable U.S. securities laws and Nasdaq rules.

In 2019, we intend to continue to invest in selling and marketing, in developing new products and services and to otherwise implement our strategy (see under Item 4.B “Information on the Company - Business Overview – Our Strategy” above). We believe that this strategy will enable us to support continued sales growth and enhance market acceptance for our offerings. However, we expect to continue to incur operating losses in the near future as we increase our sales and marketing activities associated with implementing our strategy, mainly in the United States, Japan, Europe and China, and otherwise continue to invest capital in the development and expansion of our products and our business generally, including commitment of substantial resources toward reimbursements and clinical studies.

Our ability to continue our growth and achieve profitability depends, in part, on the global economy and the growth rates and changes in trends in industries in which we operate, including the availability of reimbursement for the use of our products by medical insurance companies as described elsewhere in this annual report, as well as the level of market acceptance of our products and services. As such, our results may be adversely affected if, among other things, there is an economic slowdown or a failure of our products to achieve market recognition or demand.

While we believe that some of the trends and plans described above will present significant opportunities for us, they also pose significant challenges, uncertainties and risks, including those described under Item 3.D “Risk Factors” above.

*For additional details regarding our capital resources and contractual obligations, see Item 5.B “Operating and Financial Review and Prospects—Liquidity and Capital Resources” and Item 5.F “Operating and Financial Review and Prospects— Tabular Disclosure of Contractual Obligations.”*

## **Financial Overview**

*Revenues.* Our revenues consist primarily of sales of our WatchPAT product and, to a lesser extent, our Endo PAT product and related services to hospitals, clinics and physicians practices, including health management organizations, or HMOs, directly as well as through distribution channels. These products are offered mainly as a combination of TaaS or CPT (as part of our TSS program in the cardiology field in the U.S.), capital equipment (which can be used for several years) and one-time disposable probes. For additional details regarding the manner in which we recognize revenues, see the discussion under the caption “*Critical Accounting Policies and Significant Judgments and Estimates - Revenue Recognition*” below.

*Cost of Revenues.* Our cost of revenues consists of costs of raw materials and subcontractors, as well as labor, utility and maintenance costs associated with the operation of our manufacturing facility, depreciation and shipping and handling.

*Operating Expenses.* Our current operating expenses consist of three components:

- *Selling and Marketing.* Our selling and marketing expenses consist primarily of salaries, including share-based compensation and related personnel expenses to selling, marketing and business development personnel, sales commission and related personnel expenses, sales offices maintenance and administrative costs conferences and trade shows, advertising and marketing, cost of third party consultants (including in respect of our efforts to increase the number of insurers entitled to reimbursement for use of our products) and travel expenses.

- *Research and Development.* Our research and development expenses consist primarily of salaries, including share-based compensation and related personnel expenses, cost of third-party consultants, advisory board, raw materials, costs related to conducting clinical studies, patent costs, regulatory costs and travel expenses. Some development costs that relate to development of products or processes that are technically and commercially feasible and for which we have sufficient resources to complete development and intent to use or sell them are capitalized and subsequently amortized.
- *General and Administrative.* General and administrative expenses consist primarily of salaries, including share-based compensation and related personnel expenses, professional service fees for accounting, legal, bookkeeping, directors' fees and associate costs, and doubtful debts.

*Financial Expenses and Income.* Financial expenses and income consist primarily of changes in the fair value of warrants and embedded warrants of our convertible notes that were fully repaid in February 2018, interest expenses and exchange rate differences on such convertible notes and other loans, interest income and exchange rate differences on bank deposits and marketable securities, change in the fair value of marketable securities and foreign currencies gains or losses. The warrants, including the embedded warrants in our convertible notes, are measured on each reporting date and the results from the changes in their fair value which is being impacted, among other things, by the changes in our share price are included in financial expenses or income, net. Typically, when share price increases, the fair value of the embedded warrants increases, which results in higher financial expenses, and when share price decreases, the fair value of the embedded warrants decreases, which results in lower financial expenses or financial income. For additional details regarding the manner in which we record financial expenses and income, see the discussion under the caption "*Critical Accounting Policies and Significant Judgments and Estimates - Investments in Debt Securities, Derivatives and Non-Derivative Financial Liabilities*" below.

*Taxes on Income.* We are subject to income taxes in Israel, the United States, Japan and the Netherlands. For additional details regarding our income taxes, see Note 13 to our audited consolidated financial statements included elsewhere in this annual report, and the discussion in "Item 10E – Taxation" below.

### **Critical Accounting Policies and Significant Judgments and Estimates**

The preparation of financial statements in conformity with IFRS requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of assets, liabilities, revenues and expenses during the reporting period.

The accounting estimates used in the preparation of our financial statements require management to make assumptions regarding circumstances and events that involve considerable uncertainty. Management prepares the estimates based on past experience, various facts, external circumstances, and reasonable assumptions according to the pertinent circumstances of each estimate. Actual results may differ from these estimates under different assumptions or conditions. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any affected future periods.

While our significant accounting policies are more fully described in Note 2 to our audited consolidated financial statements included elsewhere in this annual report, we believe the following accounting policies are most critical to understanding and evaluating our reported financial results:

**Revenue Recognition.** As from January 1, 2018, we apply the following accounting policies under IFRS 15, *Revenues from Contracts with Customers* ("IFRS 15").

We recognize revenues when the customer obtains control over the products or services that have been secured, net of provision for returns and discounts. The revenue is measured according to the amount of consideration that we expect to be entitled to in return for the transfer of products or services promised to the customer, other than amounts collected in favor of third parties.

We recognize estimated sales discounts as a reduction of sales in the same period at which revenue is recognized. We adjust reserves to reflect differences between estimated and actual. We estimate our sales returns reserve based on historical return rates and analysis of specific accounts.

When we sell our products through distributors, revenue is being recognized upon delivery of the product to the distributor, as the distributor does not have the right to return and the control over the products is transferred at this point in time.

We account for a contract with a customer only when the following conditions are met: (i) the parties to the contract have approved the contract (in writing, orally or according to other customary business practices) and they are committed to satisfying the obligations attributable to them; (ii) we can identify the rights of each party in relation to the products or services that will be transferred; (iii) we can identify the payment terms for the products or services that will be transferred; (iv) the contract has a commercial substance (i.e., the risk, timing and amount of the entity's future cash flows are expected to change as a result of the contract); and (v) it is probable that the consideration, to which we are entitled to in exchange for the products or services transferred to the customer, will be collected.

If a contract with a customer does not meet all of the above criteria, consideration received from the customer is recognized as a liability until the criteria are met or when one of the following events occurs: (i) we have no remaining obligations to transfer products or services to the customer and any consideration promised by the customer has been received and cannot be returned; or (ii) the contract has been terminated and the consideration received from the customer cannot be refunded.

We identify products or services promised to the customer as being distinct performance obligations when the customer can benefit from the products or services on their own or in conjunction with other readily available resources and our promise to transfer the products or services to the customer is separately identifiable from other promises in the contract. In order to examine whether a promise to transfer products or services is separately identifiable, we examine whether we are providing a significant service of integrating the products or services with other products or services promised in the contract into one integrated outcome that is the purpose of the contract.

Products or services that are not considered as being distinct are grouped together as a single performance obligation. The revenue from each such performance obligation is recognized upon transfer of control over the promised products or services to customer. In general, we allocate the transaction price to the identified performance obligations in the contract, based on the relative stand-alone selling prices when the products or services are sold separately. In cases where the products or services are not sold separately, for example, in the case of installations or training, we establish the stand-alone selling price assigned to that performance obligation, based on estimated costs plus a reasonable margin.

Significant financing component in installment sales is separated in determining the transaction price.

As applicable to us, revenues from sales agreements consisting of multiple products or services, such as devices, consumables, access to our CloudPAT application, WatchPAT Direct logistic services and support, extended warranty and other service agreements, are separated into different performance obligations, based on its relative fair values, and revenue is separately recognized for each performance obligation.

We recognize revenue from renting our products over the rent term, in conformity with the agreement with the customer.

Since 2015, we have focused on offering TSS to the cardiology market through various business models; however, TaaS, also known as CPT model, is the primary model we utilized to date. In the TaaS model, the medical practice or physician ordering the TaaS pays a fixed fee per HSAT that includes all the components associated with the test, including the disposable biosensor, hardware rental fees and access to our CloudPAT platform. Under the TaaS model, some rent agreements of the WatchPAT devices are made for a period of one to two years. The rental fees are separated under the relative fair value approach.

In some cases, we handle sale transactions of these devices as a finance lease and recognize revenue in respect of the products supplied at the commencement date of the lease. When these transactions include multiple performance obligations, revenue is recognized based on the relative stand-alone selling prices of each performance obligation in the transaction when they are sold separately.

Operating lease arrangements offer customers theft or loss warranty, for which if elected, we make appropriate provision for their replacement.

Revenue is recognized when we satisfy a performance obligation by transferring control over the promised products or services to the customer. Sale of devices and disposables are generally recognized upon shipment. Services (including extended warranty) are recognized ratably over time.

A contract asset is recognized when we have a right to consideration for products or services, we transferred to the customer that is conditional on other than the passing of time, such as our future performance. Contract assets are classified as receivables when the rights in their respect become unconditional.

A contract liability is recognized when we have an obligation to transfer products or services to the customer for which we received consideration (or the consideration is payable) from the customer.

An asset and liability relating to the same contract are presented on a net basis in the statement of financial position. On the other hand, a contract asset and contract liability deriving from different contracts are presented on a gross basis in the statement of financial position.

As to the accounting policy applied in periods prior to January 1, 2018, see Note 2q to our audited consolidated financial statements included elsewhere in this annual report.

**Share-Based Compensation.** The grant-date fair value of share-based payment awards granted to our employees and directors is recognized as an expense, with a corresponding increase in equity, over the period that the employees and directors become unconditionally entitled to the awards. The amount recognized as an expense in respect of share-based payment awards that are conditional upon meeting service and non-market performance conditions, is adjusted to reflect the number of awards that are expected to vest. For share-based payment awards with non-vesting conditions or with market performance vesting conditions, the grant date fair value of the share-based payment awards is measured to reflect such conditions, and therefore we recognize an expense in respect of the awards whether or not the conditions have been met.

The fair value at the time of granting of share-based payment awards to consultants and service providers are recognized over the consultants' and the service providers' period of service against an increase in equity. The fair value of the services is calculated on the basis of the fair value of the awards and not on the basis of the fair value of the services, since it is not possible to reliably estimate the fair value of the services rendered.

The fair value of our option grants is computed as of the grant date based on various economic models, using the standard parameters established in that model including estimates relating to the share price on the measurement date, exercise price of the instrument, expected volatility (based on the historical volatility), the expected life span of the options, and the risk-free interest rate (based on Israeli government bonds). As our ordinary shares are publicly traded on the TASE, we do not need to estimate the fair market value of our shares as we use the actual closing market price of our ordinary shares on the date of grant, as reported by the TASE.

We elected to record the increase in equity against salary expense directly to retained earnings.

**Derivatives.** We recognize all derivative instruments as assets or liabilities in the statements of financial position at their estimated fair values, and the changes in such fair values are recognized in the statements of operations within "financial income (expenses), net" for the period in which they occur. During the reported periods, we did not have derivatives designated as hedges. We review our contracts to identify the existence of embedded derivatives. Identified embedded derivatives are analyzed to determine if they need to be separated from the host contract and recognized in the statements of financial position as assets or liabilities, applying the same valuation rules used for other derivative instruments.

Derivatives with either a conversion price or an exercise price that are denominated in NIS, a currency different than our functional currency, are accounted for as a derivative financial instrument measured at fair value through the statements of operations on each reporting date and constitute a liability.

The fair value of derivatives which are embedded in our formerly outstanding convertible notes is measured based on direct or indirect observed market data, using the binomial model, based on relevant parameters of the conditions of the convertible notes which have been identified for determining the fair value of the warrant component.

The fair value of the Viola Warrants and the Warrants (Series 4) (see Note 14 to our audited consolidated financial statements included elsewhere in this annual report) as of December 31, 2015 and during the nine month period ended September 30, 2016 was measured at quoted market value of the Warrants (Series 4), due to the fact that the Viola Warrants and the Warrants (Series 4) are essentially identical in their conditions. Starting with the fourth quarter of 2016 and until December 31, 2017, we believed that there was no active market for the traded Warrants (Series 4), primarily due to an ongoing gradual decline in the frequency and volume of trading in such warrants with significant variance in the transactions prices of the warrants without a corresponding material change in the share price, and often with a negative correlation between the change in the share price and the change in the warrants price. Consequently, we estimated the fair value of the Viola Warrants and the Warrants (Series 4) as of December 31, 2016 and for periods thereafter based on observable market data, directly or indirectly, based on the binomial model and based on relevant parameters of the terms of the Viola Warrants and the Warrants (Series 4).

The following parameters were used in the calculation of the fair value of the above derivatives, using the binomial model: discount rate for notes (yield to maturity of the notes), the discount rate of the Viola Warrants and Warrants (Series 4) (risk free interest), the share price and standard deviation of the share price.

## Recently Issued Accounting Pronouncements

For information with respect to recent accounting pronouncements, see Note 2(u) to our audited consolidated financial statements included elsewhere in this annual report.

## Results of Operations

The following discussion of our results of operations for the years ended December 31, 2018, 2017 and 2016, including the following tables, which present selected financial information data in dollars and as a percentage of total revenues, is based upon our consolidated statements of operations contained in our consolidated financial statements for those years, and the related notes, included in this annual report.

	Year Ended December 31,		
	2018	2017	2016
(in thousands, except per share and share data)			
<b>Consolidated Statements of Operations Data:</b>			
Revenues	\$ 24,189	\$ 20,701	\$ 18,440
Cost of revenues	5,726	5,002	4,979
Gross profit	18,463	15,699	13,461
Operating expenses:			
Selling and marketing expenses	12,699	12,140	14,035
Research and development expenses	3,638	4,129	3,225
General and administrative expenses	5,247	5,278	6,213
Total operating expenses	21,584	21,547	23,473
Operating loss	(3,121)	(5,848)	(10,012)
Financial income (expenses) from cash and investments	244	1,591	716
Financial expenses from notes, loans and other	(1,161)	(4,884)	(4,760)
Gain (loss) from derivative instruments, net	2,433	3,925	(216)
Financial income (expenses), net	1,516	632	(4,260)
Loss before income taxes	(1,605)	(5,216)	(14,272)
Taxes on income	(124)	(85)	(131)
Net loss	\$ (1,729)	\$ (5,301)	\$ (14,403)
Loss per share:			
Basic	\$ (0.01)	\$ (0.02)	\$ (0.05)
Diluted	\$ (0.01)	\$ (0.02)	\$ (0.05)

	<b>Year Ended December 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
Revenues	100.0%	100.0%	100.0%
Cost of revenues	23.7	24.2	27.0
Gross profit	76.3	75.8	73.0
Operating expenses:			
Selling and marketing expenses	52.5	58.6	76.1
Research and development expenses	15.0	19.9	17.5
General and administrative expenses	21.7	25.5	33.7
Total operating expenses	89.2	104.0	127.3
Operating loss	(12.9)	(28.2)	(54.3)
Financial income (expenses) from cash and investments	1.0	7.6	3.9
Financial expenses from notes, loans and other	(4.8)	(23.6)	(25.8)
Gain (loss) from derivative instruments, net	10.1	19.0	(1.2)
Financial income (expenses), net	6.3	3.0	(23.1)
Loss before income taxes	(6.6)	(25.2)	(77.4)
Taxes on income	(0.5)	(0.4)	(0.7)
Net loss	(7.1)%	(25.6)%	(78.1)%

**Comparison of the Year Ended December 31, 2018 to the Year Ended December 31, 2017**

*Revenues.* The following tables provide a breakdown of our revenues, by line of product and by geographic area, during the years ended December 31, 2018 and 2017, as well as the percentage change between such years:

	<b>Year Ended December 31,</b>		<b>Increase (decrease) %</b>
	<b>2018</b>	<b>2017</b>	
	<b>(in thousands)</b>		
WatchPAT and other related services	\$ 22,384	\$ 18,105	23.6
Endo PAT and other related services	1,805	2,596	(30.5)
<b>Total</b>	<b>\$ 24,189</b>	<b>\$ 20,701</b>	<b>16.8</b>

	<b>Year Ended December 31,</b>		<b>Increase (decrease) %</b>
	<b>2018</b>	<b>2017</b>	
	<b>(in thousands)</b>		
United States and Canada	\$ 17,582	\$ 14,764	19.1
Japan	3,374	2,965	13.8
Europe	1,885	1,746	8.0
Asia Pacific (excluding Japan)	849	759	11.9
Other	499	467	6.9
<b>Total</b>	<b>\$ 24,189</b>	<b>\$ 20,701</b>	<b>16.8</b>

Our revenues in 2018 increased by 16.8% to \$24.2 million, compared with \$20.7 million in 2017. The increase is mainly attributable to an increase of 23.6% in revenues from sales of our WatchPAT product, which was partially offset by a decrease of \$0.8 million, or 30.5%, in the revenues from sales of our Endo PAT product in 2018, compared with 2017.



The increase in revenues from sales of our WatchPAT product in 2018 is mainly associated with the following: (i) an increase in the volume of sales of disposables being used with each WatchPAT test sold in the U.S.; and (ii) an increase of 23.2% sales of WatchPAT in Japan, which is attributable to an increase in the volume of sales of WatchPAT in such territory.

The decrease in revenues from sales of our Endo PAT product in 2018 is primarily due to a continued decrease in our sales and marketing efforts of this product, which is consistent with the trend of decreased volume of sales of the Endo PAT product in recent years.

The portion of revenues from the sale of disposables out of total revenues in 2018 slightly increased to 54.9%, from 54.8% in 2017 (such portion in the U.S. slightly increased to 62.4% in 2018, from 61.7% in 2017), while the portion of revenues from the sale of devices out of total revenues in 2018 decreased to 33.9%, from 36.3% in 2017. The change in the ratio between revenues from sale of disposables and sale of devices in the comparison years was mainly attributed to an increase in the number of WatchPAT tests (and hence, use of disposables) conducted during such years, primarily in the U.S.

Revenues from sales of CPAP device were immaterial in each of 2018 and 2017, and represented less than 2% of our total revenues in each of these years. Revenues from other services, such as access to our CloudPAT platform, WatchPAT Direct logistic services and support and other service agreements were also immaterial in each of 2018 and 2017 and represented less than 5% of our total revenues in each of these years.

*Cost of Revenues and Gross Profit.* Our cost of revenues for 2018 increased by 14.5% to \$5.7 million, compared with \$5.0 million in 2017, whereas our gross profit for 2018 increased by 17.6% to \$18.5 million, compared with \$15.7 million in 2017. The increase in absolute gross profit is primarily due to our increased volume of sales. The increase in our gross profit margin to 76.3% in 2018 from 75.8% in 2017, is primarily attributable to: (i) allocation of fixed costs and overhead expenses on a higher volume of sales; and (ii) increased efficiency and cost reduction in the production process.

*Operating Expenses.* The following table sets forth a breakdown of our operating expenses (excluding cost of revenues) for the years ended December 31, 2018 and 2017 as well as the percentage change between such years:

	<u>Year Ended December 31,</u>		<u>Increase (decrease) %</u>
	<u>2018</u>	<u>2017</u>	
	<u>(in thousands)</u>		
Selling and marketing	\$ 12,699	\$ 12,140	4.6
Research and development	3,638	4,129	(11.9)
General and administrative	5,247	5,278	(0.6)
<b>Total</b>	<u>\$ 21,584</u>	<u>\$ 21,547</u>	0.2

*Selling and Marketing.* Selling and marketing expenses for 2018 increased by 4.6% to \$12.7 million, compared with \$12.1 million in 2017. This increase is primarily due to the following: (i) an increase in employee related costs (including payroll, share-based compensation, sales commissions and travel expenses), mostly related to recruitment of personnel in the U.S.; and (ii) an increase in consulting and legal expenses, mainly additional expenses related to our efforts to increase the insurance coverage for reimbursement for use of our products. This increase was partially offset by (i) a decrease of employee related costs (including payroll, share-based compensation, sales commissions and travel expenses), related to our Japanese subsidiary; and (ii) a decrease in advertising, public relations and sales promotion expenses, including expenses relating to marketing campaigns and trade shows. The headcount of selling and marketing personnel increased from 42 as of December 31, 2017 to 52 as of December 31, 2018.

*Research and Development.* Research and development, or R&D, expenses decreased by 11.9% to \$3.6 million in 2018, compared with \$4.1 million in 2017. This decrease is primarily due to the following: (i) a decrease in expenses associated with a clinical study in the U.S. carried out in 2017 and 2018 in order to expand the acquaintance of the medical community with our PAT signal technology; and (ii) a decrease in expenses related to consultants and subcontractors. This increase was partially offset by an increase in employee related costs related to recruitment of new R&D personnel. The headcount of R&D personnel increased from 14 as of December 31, 2017 to 17 as of December 31, 2018.

*General and Administrative Expenses.* General and administrative, or G&A, expenses slightly decreased by 0.6% to \$5.2 million in 2018, compared with \$5.3 million in 2017. This decrease is primarily attributable to a decrease of \$0.1 million in allowance for doubtful debts and a decrease in share-based compensation expenses that was partially offset by an increase in employee related costs. The headcount of G&A personnel increased from 20 as of December 31, 2017 to 21 as of December 31, 2018.

*Operating Loss.* Based on the foregoing, our operating loss decreased from \$5.8 million in 2017 to \$3.1 million in 2018.

*Financial Income, Net.* Financial income, net for 2018 was \$1.5 million, compared to \$0.6 million in 2017. The change is primarily because in 2018 we incurred net gain from changes in the fair value of derivative instruments, which amounted to \$2.4 million, compared with \$3.9 million in 2017. This gain was partially offset by (i) financial expenses from notes, loans and other in the amount of \$1.2 million in 2018, compared with \$4.9 million in 2017, mainly attributable to the full repayment of the remainder of the principal amount of the convertible notes in February 2018; and (ii) financial income from cash and investments in the amount of \$0.2 million in 2018, compared with \$1.6 million in 2017, mainly due to decrease in cash and investments balances as a result of the full repayment of the remainder of the principal amount of the convertible notes in February 2018.

The decrease in gain with respect to derivative financial instruments is due to change in the fair value of the Viola Warrants we issued in November 2015 and January 2016, Warrants (Series 4) we issued to our shareholders as part of a rights offering in December 2015 and the warrants embedded in our formerly outstanding convertible notes. According to IFRS, a valuation at each reporting date of such derivative instruments is required since they are denominated in NIS. The fair value is primary impacted by our share price and the reduction of the maturity period.

*Net Loss.* Net loss for 2018 decreased by \$3.6 million, or 67.4%, to \$1.7 million, compared with a net loss of \$5.3 million in 2017. This decrease is primarily attributable to the decrease in our operating loss and by the increase in net financial income, as described above.

#### **Comparison of the Year Ended December 31, 2017 to the Year Ended December 31, 2016**

*Revenues.* The following tables provide a breakdown of our revenues, by line of product and by geographic area, during the years ended December 31, 2017 and 2016, as well as the percentage change between such years:

	<b>Year Ended December 31,</b>		<b>Increase (decrease) %</b>
	<b>2017</b>	<b>2016</b>	
	<b>(in thousands)</b>		
WatchPAT and other related services	\$ 18,105	\$ 15,697	15.3
Endo PAT and other related services	2,596	2,743	(5.4)
<b>Total</b>	<b>\$ 20,701</b>	<b>\$ 18,440</b>	<b>12.3</b>

	<b>Year Ended December 31,</b>		<b>Increase (decrease) %</b>
	<b>2017</b>	<b>2016</b>	
	<b>(in thousands)</b>		
United States and Canada	\$ 14,764	\$ 13,343	10.6
Japan	2,965	2,161	37.2
Europe	1,746	1,542	13.2
Asia Pacific (excluding Japan)	759	1,017	(25.4)
Other	467	377	23.9
<b>Total</b>	<b>\$ 20,701</b>	<b>\$ 18,440</b>	<b>12.3</b>

Our revenues in 2017 increased by 12.3% to \$20.7 million, compared with \$18.4 million in 2016. The increase is mainly attributable to an increase of 15.3% in revenues from sales of our WatchPAT product, which was partially offset by a decrease of \$0.1 million, or 5.4%, in the revenues from sales of our Endo PAT product in 2017, compared with 2016.

The increase in revenues from sales of our WatchPAT product in 2017 is mainly associated with the following (i) an increase in the volume of sales of disposables being used with each WatchPAT test sold in the U.S.; and (ii) an increase in the volume of sales of WatchPAT units in Japan.

The decrease in revenues from sales of our Endo PAT product in 2017 is primarily due to (i) a continued decrease in our sales and marketing efforts of this product, which is consistent with the trend of decreased volume of sales of the Endo PAT product in recent years; and (ii) the decrease in the volume of sales to research institutions which purchase this product, associated with the reduction of research funds available to such customers.

The portion of revenues from the sale of disposables out of total revenues in 2017 increased to 54.8%, from 49.5% in 2016 (such portion in the U.S. increased to 61.7% in 2017, from 53.6% in 2016), while the portion of revenues from the sale of devices out of total revenues in 2017 decreased to 36.3%, from 40.0% in 2016. The change in the ratio between revenues from sale of disposables and sale of devices in the comparison years was mainly attributed to an increase in the number of WatchPAT tests (and hence, use of disposables) conducted during such years, primarily in the U.S.

Revenues from sales of CPAP device were immaterial in each of 2017 and 2016 and represented less than 4% of our total revenues in each of these years. Revenues from other services, such as access to our CloudPAT platform, WatchPAT Direct logistic services and support and other service agreements were also immaterial in each of 2017 and 2016 and represented less than 5% of our total revenues in each of these years.

*Cost of Revenues and Gross Profit.* Our cost of revenues for 2017 was \$5.0 million, similar to 2016, whereas our gross profit for 2017 increased by 16.6% to \$15.7 million, compared with \$13.5 million in 2016. The increase in absolute gross profit is primarily due to our increased volume of sales. The increase in our gross profit margin, to 75.8% in 2017 from 73.0% in 2016, is primarily attributable to: (i) allocation of fixed costs and overhead expenses on a higher volume of sales; (ii) increased efficiency and cost reduction in the production process; and (iii) in 2016, a mixture of products with a lower gross margin, such as the CPAP devices sold during 2016 (which, although comprising less than 4% of our total revenues in each of 2017 and 2016, had a negative impact of nearly 1.5% on our gross margin in 2016).

*Operating Expenses.* The following table sets forth a breakdown of our operating expenses (excluding cost of revenues) for the years ended December 31, 2017 and 2016 as well as the percentage change between such years:

	<b>Year Ended December 31,</b>		<b>Increase (decrease) %</b>
	<b>2017</b>	<b>2016</b>	
	<b>(in thousands)</b>		
Selling and marketing	\$ 12,140	\$ 14,035	(13.5)
Research and development	4,129	3,225	28.0
General and administrative	5,278	6,213	(15.0)
<b>Total</b>	<b>\$ 21,547</b>	<b>\$ 23,473</b>	<b>(8.2)</b>

*Selling and Marketing.* Selling and marketing expenses for 2017 decreased by 13.5% to \$12.1 million, compared with \$14.0 million in 2016. This decrease is primarily attributable to a decrease of \$1.8 million in employee related costs (including payroll, share-based compensation and travel expenses), mostly related to the reduction in the mid-management team of the U.S. Subsidiary as part of our new strategy and the reduction in the operations (including personnel) of our Japanese subsidiary. The headcount of selling and marketing personnel decreased from 55 as of December 31, 2016 to 42 as of December 31, 2017.

*Research and Development.* R&D, expenses increased by 28.0% to \$4.1 million in 2017, compared with \$3.2 million in 2016. This increase is primarily due to the following: (i) a clinical study in the U.S. carried out in 2017 in order to expand the acquaintance of the medical community with our PAT signal technology; and (ii) an increase in employee related costs associated with new R&D projects. The headcount of R&D personnel increased from 13 as of December 31, 2016 to 14 as of December 31, 2017.

*General and Administrative Expenses.* G&A, expenses decreased by 15.0% to \$5.3 million in 2017, compared with \$6.2 million in 2016. This decrease is primarily attributable to a decrease of \$0.7 million in allowance for doubtful debts and a decrease in share-based compensation expenses that was partially offset by an increase in employee related costs. The headcount of G&A personnel decreased from 21 as of December 31, 2016 to 20 as of December 31, 2017.

*Operating Loss.* Based on the foregoing, our operating loss decreased from \$10.0 million in 2016 to \$5.8 million in 2017.

*Financial Income (Expenses), Net.* Financial income, net for 2017 was \$0.6 million, compared to financial expenses, net of \$4.3 million in 2016. The change is primarily because in 2017, we incurred a net gain from change in fair value of derivative instruments, which amounted to \$3.9 million, compared to a net loss from derivative instruments of \$0.2 million in 2016. This gain was partially offset by financial expenses from notes and loans in the amount of \$4.9 million in 2017, compared with \$4.8 million in 2016.

The transition from loss to gain with respect to derivative instruments is due to change in the fair value of the Viola Warrants we issued in November 2015 and January 2016, Warrants (Series 4) we issued to our shareholders as part of a rights offering in December 2015 and the warrants embedded in our formerly outstanding convertible notes. According to IFRS, a valuation at each reporting date of such derivative instruments is required since they are denominated in NIS. Fair value is primarily impacted by our share price and the reduction of the maturity period.

*Net Loss.* Net loss for 2017 decreased by \$9.1 million, or 63.2%, to \$5.3 million, compared with a net loss of \$14.4 million in 2016. This decrease is primarily attributable to the decrease in our operating loss and the transition from net financial expenses to net financial income, as described above.

### **Impact of Currency Fluctuations and of Inflation**

Our financial results may be impacted by foreign currency fluctuations and inflation although, except as set forth below, foreign currency fluctuations and the rate of inflation did not have a material impact on our financial results in the past three years.

Since the majority of our revenues are paid in or linked to the dollar, we believe that inflation and fluctuations in the NIS/dollar exchange rate have no material effect on our revenues. However, a significant portion of the cost of our Israeli operations, mainly personnel and facility-related, is incurred in NIS and, consequently, inflation in Israel and fluctuations in the dollar/NIS exchange rate may have an impact on our expenses and, as a result, on our net income or loss. Our NIS costs, as expressed in dollars, are influenced by the extent to which any increase in the rate of inflation in Israel is not offset (or is offset on a lagging basis) by a devaluation of the NIS in relation to the dollar. To protect against the changes in value of forecasted foreign currency cash flows resulting from payments in NIS, we maintain liquid means on hand in NIS and dollar and we execute, from time to time, hedging transactions in accordance with our needs. As of December 31, 2018, we did not enter into any hedge transaction. Even if we enter into such hedging transactions, these measures may not adequately protect us from material adverse effects due to the impact of currency fluctuations or inflation.

*For additional details, see Item 11 “Quantitative and Qualitative Disclosures about Market Risk” below.*

## **B. LIQUIDITY AND CAPITAL RESOURCES**

### **General**

Since our incorporation in 1997, we have incurred operating and net losses in most of our years of operation. As of December 31, 2018, we had an accumulated deficit of approximately \$105.5 million. We expect to continue to incur operating and net losses for the foreseeable future, as we continue to invest in research and development and marketing and sales operations aimed at growing our business.

In the past several years, we financed our operations primarily through issuance of equity and debt to the public, private placements of our ordinary shares to institutional and other investors and loans from our major shareholders and commercial banks.

Our funding and treasury activities are conducted within corporate practices to maximize investment returns while maintaining appropriate liquidity for both our short and long-term needs. Cash and cash equivalents are held primarily in dollars and NIS. Marketable securities are currently held mainly in NIS.

### **Principal Financing Activities**

Since January 1, 2015, we have engaged in the following principal financing activities:

- **2015 Viola Investment.** On August 26, 2015, we entered into a share purchase agreement with Viola Growth II A.V. LP, Viola Growth II (A) LP and Viola Growth II (B) LP, or collectively, Viola (the “Viola Investment Agreement” or the “Viola Transaction”):
  - On November 5, 2015 (and, as a second stage of the transaction, on February 1, 2016), following approval by our shareholders of the Viola Transaction, we completed the transaction and issued to Viola, in the aggregate for these two closings, 66,876,907 ordinary shares (representing, as of February 1, 2016, approximately 25.47% of our issued and outstanding shares on a post-issuance basis) at a purchase price of NIS 1.449 per share (equivalent to \$0.38, based on the exchange rate as of that date) (the “Viola PPS”), resulting in aggregate proceeds (before expenses) of NIS 96.9 million (equivalent to approximately \$25.2 million, based on the exchange rate as of that date). As a result, Viola became and, to our knowledge, still is, our largest shareholder.

- o In addition, we issued to Viola, for no additional consideration, warrants (the “Viola Warrants”) exercisable into up to 33,438,454 ordinary shares (i.e., a ratio of one warrant for every two shares). The Viola Warrants have an exercise price of NIS 1.642 per share (equivalent to \$0.46) for the first 21 months of the term thereof and an exercise price of NIS 1.745 (equivalent to \$0.48) for the remainder of the term, subject to adjustments. The Viola Warrants expire on the earlier of: (i) the passage of 42 months following their issuance (i.e., on May 4, 2019); (ii) in the event of a public offering with a pre-money valuation of our Company of at least \$250 million; or (c) in the event of a merger or sale of our Company which reflects a company value of at least \$250 million and the result of which will be that the shareholders in our Company before such event will hold less than the majority of voting rights in the surviving entity.
- o The Viola Investment Agreement contained customary terms and conditions, including (i) representations and warranties of the parties which survived the completion of the transaction and, in general, expired in late 2017; and (ii) we agreed to grant customary registration rights to Viola, subject to obtaining the applicable regulatory approvals to the extent required under applicable law, and that such registration rights will include, at a minimum, two demand registration rights and unlimited piggyback and Form F-3 registrations.
- **2015 Rights Offering.** In connection with the Viola Transaction, we conducted a rights offering to our shareholders pursuant to a shelf offering report that we published on December 2, 2015:
  - o On December 29, 2015, we completed the rights offering and issued to the subscribing shareholders a total of 12,876,603 ordinary shares (representing as of such date approximately 4.95% of our issued and outstanding shares on a post-issuance basis) at a price per share equal to the Viola PPS, resulting in aggregate proceeds (before expenses) of NIS 18.7 million (equivalent to approximately \$4.7 million, based on the exchange rate as of that date).
  - o In addition, we issued to the subscribing shareholders, for no additional consideration, Warrants (Series 4) exercisable into up to 6,438,152 ordinary shares (i.e., a ratio of one warrant for every two shares). The Warrants (Series 4), which are listed for trading on the TASE, have an exercise price equal to the exercise price of the Viola Warrants and expire on May 4, 2019.
  - o We used the proceeds from the 2015 Viola Transaction and from the rights offering for various general and corporate purposes, including repayment of \$1.8 million of outstanding loans from some of our major shareholders, as described under “2015 Repayment of Shareholder Loans” below.
- **2015 Repayment of Shareholder Loans.** In November 2015, we used \$1.8 million out of the proceeds of the Viola Transaction and from the 2015 rights offering to repay outstanding loans from some of our major shareholders, namely, we repaid \$0.6 million to Medtronic, \$0.6 million to Dr. Giora Yaron, \$0.4 million to Mr. Martin Gerstel as well as \$0.1 million to Caremi Partners Ltd. (who used to be a major shareholder of our Company until May 2013). The loans were received from such shareholders in March 2014, under a credit line agreement with such shareholders entered into in March 2011. Under the credit line agreement, the loans drawn in March 2014 were denominated in NIS and bore interest at a rate of 10.4% per annum. The loans were scheduled to be repaid in two equal installments on February 28, 2017 and February 28, 2018, unless we raise capital in a public or private placement which exceeds \$10 million, such as the Viola Transaction and from the 2015 rights offering.
- **2017/2019 Credit Line.** On March 29, 2017, we entered into a credit line agreement with an Israeli commercial bank (as amended on January 30, 2018 and May 28, 2018, the “Credit Agreement”), whereby we secured a credit line in a total amount of up to \$10 million comprised of (i) up to \$6 million in long-term loan (the “Loan”); and (ii) up to \$4 million of revolving credit line against our trade accounts receivable (the “Revolving Credit Line”). The Credit Agreement was replaced by a new credit line agreement entered into on March 12, 2019 (the “New Credit Agreement”), as detailed below:
  - o The Loan may be drawn at any time through February 28, 2019 and bears interest at the annual interest rate of the quarterly dollar LIBOR rate plus 5.5%. The principal amount of the Loan and the interest accrued thereon is repayable in equal quarterly installments over three years from the date of the draw.
  - o The Revolving Credit Line may be drawn at any time through January 12, 2019 and is renewable annually. It bears interest at the annual interest rate of the monthly dollar LIBOR rate plus 4.25%.
  - o The right to make any draws, whether under the Loan or the Revolving Credit Line, is conditioned upon us having cash balances of not less than 40% of the total amount drawn in our account with the lending bank.
  - o In addition, we issued the bank warrants exercisable into up to 798,088 ordinary shares at an exercise price of NIS 1.36 per share (equivalent to \$0.38 per share), subject to adjustments. The warrants are exercisable until May 14, 2022.

- In order to secure our obligations to the bank, we pledged and granted to the bank a first priority floating charge on all of our assets and a first priority fixed charge on (i) our intellectual property, goodwill, holdings in our subsidiaries and certain other, immaterial, assets and (ii) all of the assets of the U.S. Subsidiary. We refer to the agreements relating to such charges and other security interests (as amended or replaced, as described below) as the Security Agreements. The Security Agreements contain a number of customary restrictive terms and covenants that limit our operating flexibility, such as (i) limitations on the creation of additional liens, on the incurrence of indebtedness, on the provision of loans and guarantees and on distribution of dividends; and (ii) the ability of the bank to accelerate repayment in certain events, such as breach of covenants, liquidation, and a change of control of our Company. Such provisions may hinder our future operations or the manner in which we operate our business, which could have a material adverse effect on our business, financial condition or results of operations.
- As of December 31, 2018, we had a total outstanding principal amount of \$5.0 million under the Credit Agreement, of which (i) \$2.9 million were drawn in February 2018 as a short-term loan, which was renewed every three months, and currently repayable on February 19, 2019; and (ii) \$2.1 million were drawn under the Revolving Credit Line which was renewed every three months, and was repayable on February 19, 2018. On February 20, 2019, in accordance with the Credit Agreement, we renewed the term of the \$5.0 million loan thereunder and changed the mix of the amount, such that \$2.05 million were drawn as a short-term loan for three months, until May 20, 2019; and \$2.95 million were drawn under the Revolving Credit Line for three months, until May 20, 2019.
- On March 12, 2019, we and the bank entered into the New Credit Agreement under which the total credit line to be available under the credit facility was increased from \$10 million under the Credit Agreement to \$15 million under the New Credit Agreement, comprised of: (i) up to \$9 million in long-term or short-term loan; and (ii) and up to \$6 million of credit facility against trade accounts receivables. All other terms of the Credit Agreement remained substantially the same in the New Credit Agreement. As part of the New Credit Agreement, we (i) issued to the bank additional warrants exercisable into 399,044 ordinary shares at an exercise price of NIS 1.30 per share (equivalent to \$0.36 per share as of the date of grant), which will be exercisable until March 28, 2023, and (ii) extended the exercise period of the original warrants issued in connection with the Credit Agreement until March 28, 2023. In addition, we have amended certain of the Security Agreements and replaced certain of them in order to secure our obligations under the New Credit Agreement.
- **2018 Repayment of Series L Convertible Notes.** In February 2018, we repaid all of the outstanding principal amount and accrued interest of our then outstanding Series L Convertible Notes, or the convertible notes, which were issued as part of a public offering we conducted in 2013 and had a conversion price of NIS 1.92 per share (equivalent to \$0.54, based on the exchange rate on the last exercise date, i.e., on February 12, 2018). The full repayment, which totaled in a sum of NIS 32.1 million (equivalent to approximately \$9.2 million, based on the exchange rate as of the repayment date), does not include (i) repayment to Dr. Giora Yaron (through a company wholly owned by him), our Chairman of the Board of Directors and a major shareholder, and Medtronic, our major shareholder, both of whom held convertible notes and agreed to waive such repayment and used the funds otherwise owed to them to make the investment described under “2018 Private Placement” below; and (ii) repayment of NIS 1.6 million (equivalent to approximately \$0.5 million, based on the exchange rate as February 28, 2018) to Mr. Martin Gerstel, a member of our Board of Directors and a major shareholder, who held convertible notes and agreed to postpone such repayment from February 2018 to June 2018.
- **2018 Shareholders’ Loan.** As described under “2018 Repayment of Series L Convertible Notes” above, the repayment of the convertible notes does not include (i) the repayment to Dr. Giora Yaron (through a company wholly owned by him) and Medtronic, who agreed to waive such repayment and used the funds otherwise owed to them to make the investment described under “2018 Private Placement” below; and (ii) repayment of NIS 1.6 million (equivalent to approximately \$0.5 million, based on the exchange rate as February 28, 2018) to Mr. Martin Gerstel who held convertible notes and agreed to postpone such repayment from February 2018 to June 2018. Such amounts were treated as shareholders’ loan until repaid or converted to investment in shares as part of the 2018 private placement described in the next paragraph.
- **2018 Private Placement.** On March 22, 2018, we entered into separate securities purchase agreements with Dr. Giora Yaron (through a company wholly owned by him), our Chairman of the Board of Directors and a major shareholder; Viola, our largest shareholder; and Medtronic, a major shareholder, and various funds affiliated with three Israeli institutional investors, Yelin Lapidot, Meitav Dash and The Phoenix Holdings Ltd., or Phoenix:
  - On May 27, 2018, following approval by our shareholders of the private placement contemplated by these securities purchase agreements, we completed the transaction and issued to the investors a total of 22,013,893 ordinary shares (representing as of such date approximately 7.7% of our issued and outstanding shares on a post-issuance basis) at a purchase price of NIS 0.947 per share (equivalent to \$0.27, based on the exchange rate as of that date), resulting in aggregate proceeds (before expenses) of NIS 20.8 million (equivalent to approximately \$6.0 million, based on the exchange rate as of that date). Out of the total NIS 20.8 million investment, Dr. Yaron, Viola and Medtronic invested NIS 2.1 million, NIS 5.2 million and NIS 2.4 million, respectively.

- o The ordinary shares issued to the investors were subject to resale restrictions under Israeli law as applicable to private placements, including an initial six month full lockup resale restriction that expired in late November 2018.
- o The securities purchase agreements contained customary terms and conditions, including limited representations and warranties of the parties which survived the completion of the transaction and, in general, expire on May 27, 2019.
- **2019 Private Placement.** On January 16, 2019 and January 28, 2019, we entered into separate securities purchase agreements with several U.S. and Israeli accredited investors: a fund managed by Deerfield Special Situations Fund, L.P. (“Deerfield”); Triple Gate Capital, L.P. (“Triple Gate”); West Elk Partners, L.P. (“West Elk”); Alpha Capital Anstalt (“Alpha”); More Trust Fund Management (2013) Ltd. (“More Trust”); More Alternative Investments, L.P. (“More Alternative”); Hatzavim, L.P. (in the process of being acquired by Meitav Dash, one of our major shareholders) (“Hatzavim”); Tachlit Complex Instruments Ltd. (wholly owned by Meitav Dash, one of our major shareholders) (“Tachlit”); Noked Long L.P.; and Noked Bonds, L.P.:
  - o Under the securities purchase agreements, we undertook to issue to the investors, upon and subject to the closing, (i) a total of 1,170,707 ADSs, at a price per ADS of \$9.55, to the investors (other than More Investment House) (the “U.S. Tranche”); and (ii) a total of 10,944,185 ordinary shares to More Trust, at a price per ordinary share of NIS 1.1693 (equivalent to \$0.32) (the “Israeli Tranche”), or, in the aggregate, we will issue to the investors a total of 46,115,395 ordinary shares (including ordinary shares underlying the ADSs) representing, as of January 28, 2019, approximately 13.8% of our issued and outstanding shares on a post-issuance basis, resulting in aggregate proceeds (before expenses) of approximately \$14.7 million. Out of the total \$14.7 million investment, Deerfield, Triple Gate, West Elk, Alpha, More Trust, More Alternative, Hatzavim, Tachlit, Noked Long, and Noked Bond undertook to invest approximately \$3.0 million, \$2.0 million, \$2.0 million, \$1.0 million, \$3.5 million, \$0.5 million, \$0.5 million, \$0.5 million, \$1.4 million and \$0.3 million, respectively.
  - o On February 3, 2019, we completed the private placement with More Trust and issued to More Trust, 10,994,185 ordinary shares, and on March 6, 2018, we completed the private placement with the U.S. Tranche and issued to the investors under the U.S. Tranche 1,170,707 ADSs.
  - o Pursuant to the securities purchase agreements, we agreed, subject to customary exceptions, not to raise additional funds or issue equity securities until the earlier of 180 days following the closing or an initial public offering of our ADSs. In addition, our directors and executive offices have entered into customary lockup agreements, whereby each of them agreed not to sell their ordinary shares from January 16, 2019 until the earlier of (i) 180 days following the closing of the U.S. Tranche, (ii) the termination of the securities purchase agreement, or ten (10) months following the signing (November 15, 2019).
  - o The ordinary shares and ADSs issued to the investors are subject to resale restrictions under applicable U.S. and Israeli securities laws. None of the investors were granted registration rights under the securities purchase agreements.
  - o The securities purchase agreements contain other customary terms and conditions, including customary representations and warranties of the parties which survive the completion of the transaction until the date on which the investors no longer hold any of the ADSs or shares, as applicable.

### **Working Capital**

As of December 31, 2018, we had \$6.5 million in cash, cash equivalents and marketable securities, compared with \$10.8 million as of December 31, 2017. The decrease in the year ended December 31, 2018, compared to the year ended December 31, 2017 derives primarily from the repayment of the second and last installment of our convertible notes of \$9.4 million, offset by the \$6.0 million of gross proceeds from the private placement in May 2018, a draw of \$5.0 million out of our bank credit line and from the cash flows used in operating activities in an amount of \$3.9 million (which includes interest payment on our convertible notes and our bank credit line).

As of December 31, 2018, we did not have any debt to a third party, other than the short-term loans from a bank under the Credit Agreement. As of December 31, 2017, we did not have any debt to a third party, other than the convertible notes in the amount of \$10.7, which, as described above, were fully paid during 2018.

As of December 31, 2018, our working capital amounted to \$6.2 million, compared with \$3.4 million as of December 31, 2017. The increase in the year ended December 31, 2018, compared to the year ended December 31, 2017 is primarily due to the proceeds from the private placement in May 2018 and the draw out of our bank credit line, offset by (i) the repayment of the second half of the principal amount of our convertible; and (ii) the decrease in cash, cash equivalents and marketable securities resulting from the financing of our operating activities.

## Cash Flows

The following table presents the major components of net cash flows used in and provided by operating, investing and financing activities for the periods presented:

	Year Ended December 31,		
	2018	2017	2016
	(in thousands)		
Net cash used in operating activities*	\$ (3,883)	\$ (6,182)	\$ (10,630)
Net Cash provided by (used in) investing activities	2,799	(318)	(568)
Net Cash provided by (used in) financing activities	(85)	(10,324)	1,100
Decrease in cash and cash equivalents	\$ (1,169)	\$ (16,824)	\$ (10,098)

\* Including interest on our convertible notes.

### Operating Activities

Cash flows from operating activities consist primarily of loss adjusted for various non-cash items, including depreciation and amortization, share-based compensation expenses and gain or loss from reevaluation of derivatives. In addition, cash flows from operating activities are impacted by changes in operating assets and liabilities, which include inventories, accounts receivable and other assets and accounts payable.

Net cash used in operating for the year ended December 31, 2018 was \$3.9 million. This net cash used in operating activities primarily reflects a net loss of \$1.7 million, net of a net non-cash expense of \$0.1 million, an increase of \$1.0 million in trade receivables due to an increase in revenues in 2018, an increase of \$0.3 million in other accounts receivable, and an increase of \$0.3 million in inventories due to the aforesaid increase in revenues and the desire to hold inventory levels for one additional quarter, offset by an increase of \$0.3 million in accounts payable and interest of \$0.8 million paid on our convertible notes and bank credit line. Net non-cash expenses of \$0.1 million consisted primarily of depreciation and amortization of \$0.5 million, net financial cost of \$0.9 million, share-based compensation of \$1.0 million, and an increase of \$0.1 million in provision for doubtful and bad debt, offset by a net gain from changes in fair value of derivative instruments of \$2.4 million relating to warrants, including warrants embedded in our convertible notes, mainly attributable to share price decrease.

Net cash used in operating activities for the year ended December 31, 2017 was \$6.2 million. This net cash used in operating activities primarily reflects a net loss of \$5.3 million, net of net non-cash expenses of \$1.2 million, an increase of \$0.8 million in trade receivables due to an increase in revenues in 2017 and an increase of \$0.7 million in inventories due to the aforesaid increase in revenues and the desire to hold inventories levels for one additional quarter, offset by an increase of \$0.6 million in accounts payable due to the increase in our level of operating expenses, and interest of \$1.4 million paid on our convertible notes. Net non-cash expenses of \$1.2 million consisted primarily of depreciation and amortization of \$0.5 million, net financial cost of \$3.1 million, and share-based compensation of \$1.3 million, offset by a net gain from changes in fair value of derivative instruments of \$3.9 million relating to warrants, including warrants embedded in our convertible notes, mainly attributable to share price decrease.

Net cash used in operating activities for the year ended December 31, 2016 was \$10.6 million. This net cash used in operating activities primarily reflects a loss of \$14.4 million, net of net non-cash expenses of \$7.4 million, an increase of \$1.5 million in trade receivables due to an increase in revenues in 2016, an increase of \$0.4 million in inventories, offset by an increase of \$0.5 million in accounts payable. Net non-cash expenses of \$7.4 million consisted primarily of depreciation and amortization of \$0.4 million, net financial cost of \$4.1 million, net loss from changes in fair value of derivative instruments of \$0.2 million relating to warrants, including warrants embedded in our convertible notes, increases of \$0.9 million in provision for doubtful and bad debt, and share-based compensation of \$1.8 million.



### *Investing Activities*

Net cash provided by investing activities for the year ended December 31, 2018 was \$2.8 million. This net cash provided by investing activities is primarily attributable to realization of marketable securities in the amount of \$3.1 million, offset by capital expenditures and capitalized development costs of \$0.3 million.

Net cash used in investing activities for the year ended December 31, 2017 was \$0.3 million. This net cash used in investing activities is primarily attributable to capital expenditures and capitalized development costs of \$0.3 million.

Net cash used in investing activities for the year ended December 31, 2016 was \$0.6 million. This net cash used in investing activities is primarily attributable to capital expenditure and capitalized development costs of \$0.5 million.

### *Financing Activities*

Net cash used in financing activities for the year ended December 31, 2018 was \$0.1 million. This net cash used in financing activities is primarily due to the second and final repayment of our convertible notes in the amount of \$9.9 million and repayment of shareholders' loan in the amount of \$0.4 million, offset by the proceeds of \$5.2 million from the private placement in May 2018 and a draw of \$5.0 million out of our bank credit line.

Net cash used in financing activities for the year ended December 31, 2017 was \$10.3 million. This net cash used in financing activities is primarily due to first repayment of our convertible notes in the amount of \$10.4 million, offset by exercises of stock options in the amount of \$0.1 million.

Net cash provided by financing activities for the year ended December 31, 2016 was \$1.1 million. This net cash provided by financing activities is primarily due to net proceeds generated from the issuance of additional shares and warrants to Viola in the second stage of the Viola Transaction in the net amount of \$1.1 million.

### **Principal Capital Expenditure and Divestitures**

During the year ended December 31, 2018, our capital expenditures and capitalized development costs totaled \$0.3 million, compared to \$0.3 million during the year ended December 31, 2017 and \$0.5 million during the year ended December 31, 2016, most of which were used for the purchase of production and research and development equipment, office furniture and equipment and computers and self-manufactured equipment (WatchPAT devices that are used by our customers). We have no significant capital expenditures in progress.

We did not affect any principal divestitures in the past three years.

### **Outlook**

Currently, our principal commitments consist mainly of our lease obligations and bank credit line. See also Item 5.F "Tabular Disclosure of Contractual Obligations."

In light of our cash balances and other factors, including our ability to use our bank credit line, we believe that our existing capital resources will be adequate to satisfy our working capital and capital expenditure requirements for a period of no less than 12 months from the effective date of this annual report. However, from time to time, we intend to seek additional financing sources to maintain and grow our business. See also under Item 3.D "Risk Factors – Risks Related to Our Business and Operations - *We will require additional funds to support our strategy and long-term operational plans, and, if additional funds are not available, we may need to significantly scale back or even cease our planned operations*".

### **C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES, ETC.**

We view sleep medicine in general and in particular, sleep in cardiology, as our main business. Therefore, our research and development efforts in recent years were focused on (i) enhancing and improving the technology underlying our main platform, the WatchPAT200, primarily in order to address market needs (such as by adding the ability to identify central sleep apnea and Cheyne-Stokes respiration that is typical to cardiac patients); (ii) evolution of our product lines by introducing a new generation of products (such as the WatchPAT300, for which we obtained FDA clearance on August 17, 2018 and the WatchPATONE for which we made our preliminary submission to the FDA for clearance in December 2018); and (iii) improving our solutions in collaboration with other companies in the sleep arena, with the goal of introducing a superior solution to our customers.

We also invest in clinical research to support the expansion of our sleep apnea solutions in the cardiology market and in the sleep medicine market in general, as well as in order to substantiate and support the data which is at the basis of the products we are developing or enhancing. We also use such research to gain recognition in the medical community and for scientific publications.

Our research and development activities for all our products principally take place in Israel with the exception of clinical trials that are also conducted outside of Israel. As of December 31, 2018, we employed 17 persons in research and development, compared to 14 persons as of December 31, 2017 and 13 persons as of December 31, 2016.

We have committed substantial financial resources to our research and development efforts. During the years ended December 31, 2018, 2017 and 2016, our research and development expenditures were \$3.8 million, \$4.2 million and \$3.3 million, respectively (including development costs of \$0.1 million in each of those years, which were capitalized).

As described in Item 4.B “Information on the Company - Business Overview - Government Regulations,” we participated in the past in programs sponsored by the IIA.

**D. TREND INFORMATION**

See Item 5.A “Operating Results – Overview - Trend Information and Outlook.”

**E. OFF-BALANCE SHEET ARRANGEMENTS**

We do not have any off-balance sheet arrangements, as such term is defined under Item 5.E of the instructions to Form 20-F, that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

**F. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS**

The following table summarizes our significant contractual obligations and commercial commitments, as of December 31, 2018:

	<u>Total</u>	<u>Less than 1 year</u>	<u>1-3 years (in thousands)</u>	<u>3-5 years</u>	<u>More than 5 years</u>
Operating leases <sup>(1)</sup>	\$ 2,073	\$ 847	\$ 1,226	\$ —	\$ —

(1) Includes lease payments for our facilities, offices and motor vehicles. Such lease payments include \$833,000 relating to a lease agreement of our offices in Israel which we extended in January 2019.

Severance payments of \$2.4 million are payable only upon termination, retirement or death of the respective employee. Of this amount, \$0.2 million is unfunded. Since we are unable to reasonably estimate the timing of settlement, the timing of such payments is not specified in the table. See also Note 7 to our audited consolidated financial statements included elsewhere in this annual report.

As required by IFRS, our obligation to pay royalties to the IIA is presented in our consolidated financial statements as part of our long-term liabilities and accrued expenses in respect of future sales of our products. However, since these obligations are contingent upon the volume and timing of sales of our products, we are unable to reasonably estimate the timing and scope of such payments and they are not specified in the table. See also Item 4.B “Information on the Company – Business Overview – Government Regulations – The Israeli Market - Grants from the IIA” above and Note 12 to our audited consolidated financial statements included elsewhere in this annual report.

**ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

**A. DIRECTORS AND SENIOR MANAGEMENT**

The following lists the name, age, principal position and a biographical description of each of our current directors and senior management.

<b>Name</b>	<b>Age</b>	<b>Director Since</b>	<b>Position with the Company</b>
Giora Yaron, PhD	70	1997	Chairman of the Board of Directors
Gilad Glick	46	—	President and Chief Executive Officer, Acting Vice President Marketing and Sales, Acting President of the U.S. Subsidiary
Shy Basson	47	—	Chief Financial Officer
Shlomo Ayanot	63	—	Vice President, Engineering and Operations
Jacob (Koby) Sheffy, PhD (3)	66	—	Senior Vice President of Research and Chief Technology Officer
Itay Kariv	60	—	Vice President of Research and Development
Efrat Litman	45	—	Vice President of Advanced Research and Development
Eilon Livne	48	—	Vice President Sales and Channels Development EMEA
Martin Gerstel (1)	77	1997	Director
Ilan Biran (2)	72	2013	Director
Jonathan Kolber	58	2015	Director
Sami Totah	61	2015	Director
Christopher M. Cleary	58	2017	Director
Yaffa Krindel Sieradzki (1) (2)	64	2016	External Director
Zipora (Tzipi) Ozer-Armon (1) (2)	54	2016	External Director

(1) Member of our Compensation Committee of the Board of Directors (the “Compensation Committee”).

(2) Member of our Audit Committee of the Board of Directors (the “Audit Committee”).

(3) Jacob (Koby) Sheffy (PHD) is scheduled to retire upon reaching statutory retirement age in August 2019.

**Giora Yaron, PhD**, is a co-founder of our Company and has served as Chairman of our Board of Directors since 2016. Between 1997 and 2016, Dr. Yaron served as Co-Chairman of our Board of Directors. Dr. Yaron also serves as a member of the Board of Directors of Amdocs Limited (NASDAQ:DOX), as Chairman of the Board of Directors of Excelero (ExpressIO), a provider of ultra-fast block storage solutions and as the Chairman of the Board of Directors of Equalum, a provider of a real-time Data Beaming for Big Data Analytics. Dr. Yaron co-founded several privately-held technology companies, sold to multinational corporations, including, P-cube, Pentacom, Qumranet, Exanet, Comsys and Hyperwise Security. From 2010 until December 2018, Dr. Yaron served as Chairman of the Executive Council of the Tel Aviv University. He also served as Chairman of Ramot, the Tel Aviv University technology transfer company from 2010 until 2015. In 2009, Dr. Yaron also co-founded Qwilt, Inc., a privately-held video technology provider and serves on its Board of Directors. Between 1996 and 2006, Dr. Yaron served as a member of the Board of Directors of Mercury Interactive, a publicly-traded IT optimization software provider, acquired by Hewlett-Packard, including as its Chairman of the Board of Directors between 2004 and 2006. Between 1992 and 1995, Dr. Yaron served as President of Indigo NV. Prior to joining Indigo, Dr. Yaron served as Corporate Vice President of National Semiconductor. Dr. Yaron has previously served on the advisory board of Rafael Advanced Defense Systems, Ltd., a developer of high-tech defense systems, and on the advisory board of the Israeli Ministry of Defense. Dr. Yaron holds a PhD in device physics, and a Bachelor’s degree in physics and mathematics from the Hebrew University of Jerusalem.

**Gilad Glick** has served as our Chief Executive Officer and President since July 2013. Mr. Glick also serves as a director and as acting president of the U.S. Subsidiary, Itamar Medical Inc. Prior to joining Itamar Medical, Mr. Glick served in various positions in the medical devices industry, spanning across multiple countries in Europe and the U.S. in a variety of functional areas including sales, marketing, service and research & development. Between June 2008 and July 2013, Mr. Glick held the position of worldwide vice president of sales and marketing of Biosense Webster, a Johnson & Johnson company, overseeing all strategic and commercial activities. Mr. Glick earned an M.B.A from the Maastricht School of Management, majoring in general and strategic management. He is also a graduate of the Strategic Marketing Management Executive Program at the Stanford Graduate School of Business.

**Shy Basson** has served as our Chief Financial Officer since May 2017. Mr. Basson also serves as a director of the U.S. Subsidiary, Itamar Medical Inc. Prior to joining Itamar Medical, between January 2008 and October 2016, Mr. Basson served as Chief Financial Officer, Business and Strategy of WeFi, Inc., a provider of mobile data collection and Wi-Fi connectivity solutions. Prior thereto Mr. Basson served as Director of Business Development at AOL (a Time Warner Company). Prior thereto, Mr. Basson served as the CFO of ICQ. Mr. Basson holds a B.A. degree in business administration and accounting from the College of Management in Rishon Lezion and an M.B.A. from the Kellogg-Recanati Business School of the Tel Aviv University and is a Certified Public Accountant in Israel.

**Shlomo Ayanot** has served as our vice president of engineering and operations since 1999. Prior to joining Itamar Medical, between 1997 and 1999, Mr. Ayanot served as vice president of operations at TADIN – Tal Advanced Instruments Ltd., a provider of computerized control systems for production in the microelectronics field. Between 1993 and 1997 Mr. Ayanot served as Vice President of Engineering and Operations of Tamar Electronics Systems Ltd. Between 1983 and 1993, Mr. Ayanot served as production & engineering manager in K&S Industries Ltd. Mr. Ayanot holds a B.Sc. degree in industrial management, economic track, from the Technion - Israel Institute of Technology.

**Jacob (Koby) Sheffy, PhD**, has served as our Senior Vice President, Chief Technology Officer and Chief Scientist, since 1997. Prior to joining Itamar Medical, Dr. Sheffy held senior positions at the Israeli Navy, the Division of Missiles at Rafael - Advanced Defense Systems Ltd. (the Armament Development Authority) and was a research fellow in the School of Engineering at Oxford, UK. Prior to joining Itamar Medical, Dr. Sheffy held a position as the research and development director of the Sleep medicine center at the Technion - Israel Institute of Technology, and also acted as the manager of one of its sleep labs. Dr. Sheffy holds a PhD in biomedical engineering and physiology from Oxford and a B.Sc. in electrical engineering from the Technion - Israel Institute of Technology.

**Itay Kariv** has served as our Vice President of Research and Development since October 2018. Between January 2015 and October 2018, Mr. Kariv served as our Vice President of Advanced Research and Development. Mr. Kariv has more than 25 years of experience in research and development managerial roles. Prior to joining Itamar Medical, Mr. Kariv held several managerial positions, including as a Program Director at St. Jude Medical between 2008 and 2014 and as Research and Development Director and subsequently as Program Director at Biosense Webster, a Johnson & Johnson company, between 2001 and 2008. Prior to that, between 1999 and 2001, Mr. Kariv served as Vice President of Research and Development at MeetU.com, Ltd., and as Vice President of Research and Development at Lognet Systems Ltd. between 1997 and 1999. Mr. Kariv holds a Landscape Architect degree and a B.Sc. and M.Sc. in Computer Science, all from the Technion - Israel Institute of Technology.

**Efrat Litman** has served as our Vice President of Advanced Research and Development since October 2018. Between April 2017 and October 2018, Ms. Litman served as our Vice President of Research, Development and Technology and from March 2011 to April 2017 as Vice President of Research and Development. Ms. Litman has 25 years of experience in research and development work. Prior to joining Itamar Medical, Ms. Litman held several positions as a project and product manager and algorithm team leader in high-tech and bio-tech industries and the Israel Defense Force, including over eight years at Orbotech Ltd. Ms. Litman holds a B.Sc. degree in Physics and Mathematics from the Talpiot program of the Hebrew University of Jerusalem.

**Eilon Livne** has served as our Vice President of Sales and Channels Development, EMEA Region since 2015. Between 2014 and 2015, Mr. Livne served as our Head of Wellness Activity, USA. Between 2013 and 2014, Mr. Livne served as the VP Sales and Marketing of Adhestick Ltd., leading the international sales and marketing of its consumer goods products line. Between 2002 and 2013, Mr. Livne served as the CEO of Silverline Jewelry Ltd. Between 2001 and 2002, Mr. Livne served as Product Manager of Giteko Technologies, and prior to that, he served as Senior Consultant at the Governmental Incentives Department at Ernst & Young Israel. Mr. Livne holds a B.A. degree in Economy and Accountancy from the Rupin Academic Institute and is a Certified Public Accountant in Israel.

**Martin S. Gerstel** has served as a director on our Board of Directors since 1997. Between 1997 and, 2016, Mr. Gerstel also served as the Co-Chairman of our Board of Directors. Mr. Gerstel also serves as the Chairman of the Board of Directors of Evogene Ltd. (NASDAQ and TASE: EVGN), a developer of novel products for life science markets since 2004. In addition, between 1997 and 2017, Mr. Gerstel served as the Chairman of the Board of Directors of Compugen Ltd., (NASDAQ and TASE: CGEN), a predictive drug discovery and development company. Between 2009 and 2010, Mr. Gerstel also served as Compugen's Chief Executive Officer (and Co-Chief Executive Officer). Between 2004 and 2006, Mr. Gerstel served as chairman of Keddem Bioscience Ltd., a drug discovery company. In addition, Mr. Gerstel currently serves as a director of YEDA Research and Development Company Ltd., the technology transfer company for the Weizmann Institute of Science. Mr. Gerstel also served as a director of Yissum Ltd., the technology transfer company of the Hebrew University of Jerusalem, between 2003 and 2015. Mr. Gerstel is also a member of the Board of Governors and the executive committee of the Weizmann Institute of Science and the Board of Governors of the Hebrew University of Jerusalem. Prior to relocating to Israel in 1994, Mr. Gerstel was the Co-Chairman and CEO of ALZA Corporation, a U.S. pharmaceutical company specializing in advanced drug delivery (sold to Johnson & Johnson). Mr. Gerstel holds an M.B.A. degree from Stanford Graduate School of Business and a B.Sc. from Yale University.

**Ilan Biran** has served as a director on our Board of Directors since 2013. Mr. Biran has previously served as Bezeq's Chief Executive Officer. Mr. Biran serves as a director of Kinneret College on the Sea of Galilee (R.A). Mr. Biran has previously served as the Chairman of the Board of Directors of Rafael - Advanced Defense Systems Ltd. between 2007 and 2013 and as a member of the Board of Directors of Israel Discount Bank Ltd. between 2008 and 2017. Mr. Biran served in the Israel Defense Forces for 32 years, most notably as the former General Director of the Ministry of Defense, and in various staff and command positions, including commanding general, central command, head of the technology and logistics branch, and head of the operations division at the general staff. Mr. Biran has received an honorary degree from the Technion Israel Institute of Technology in 2013. Mr. Biran holds an Associate Diploma in Strategy and Political Economic Research from Georgetown University and the U.S. Marine Corps Command and Staff College. Mr. Biran also holds a B.A. in Economics and Business Administration from the Bar Ilan University.

**Jonathan Kolber** has served as a director on our Board of Directors since 2015. Mr. Kolber is a Partner and Senior Advisor at Viola Growth, a technology buyout and growth capital fund that is an affiliate of the Viola Group. In addition, he is an investor in numerous Israeli technology companies, including FIVERR, Eyeclick, ViTrainer, REAL and MoonActive. Mr. Kolber also serves as Chairman of the Board of Directors of ION Asset Management Ltd., an Israeli hedge fund and Chairman of the Board of Directors of Panaxia Pharmaceutical Industries Ltd. Mr. Kolber founded and managed Claridge Israel, together with the Canadian Bronfman family, from 1986 to 1997. Between 1998 and 2006, Mr. Kolber served as the Chief Executive Officer of Koor Industries, one of Israel's then largest conglomerates, with investments in the agrochemical, telecommunications and defense industries, which was sold in 2006 to the IDB Group. Between 1997 and 2007, he also served on the Board of Directors of ECI Telecom Ltd., and as Chairman thereof between 1999 and 2002. Mr. Kolber currently serves as a member of the board of directors of several companies, including Aeronautics Systems Ltd. (TASE: ARKS) and Optimax Ltd. and during his career has served as chairman of the board of directors, chief executive officer or director in over 60 public and private companies in Israel and North America. He holds a Bachelor's degree in Near Eastern Language and Literature from Harvard University and a Certificate of Advanced Arabic Language from the American University of Cairo.

**Sami Totah** has served as a director on our Board of Directors since 2015. Mr. Totah is a partner of Viola Growth, a technology buyout and growth capital fund that is an affiliate of the Viola Group. Mr. Totah has served as chairman of the board of directors of several Israeli start-up companies since 2003, including Pilat Media, Sheer Networks, Red Bend, and Flash Networks. Between 1984 and 2002, Mr. Totah served in various positions at Amdocs, including the position of Chief Operating Officer. Mr. Totah is a practical software engineer and participated in professional courses over the years, including courses of the Executive M.B.A. program of the Hebrew University of Jerusalem Business School.

**Christopher M. Cleary** has served as a director on our Board of Directors since 2017. Since 2014, Mr. Cleary has served as the Vice President of Corporate Development for Medtronic plc. Prior to 2014, Mr. Cleary was the CEO for Alesia Capital Services LLC, providing advisory and financial analysis services to Fortune 500 companies, including Medtronic. Prior to that Mr. Cleary served in a multitude of managerial roles at GE Capital. Mr. Cleary holds a B.A. from Colorado College.

**Yaffa Krindel Sieradzki** has served as an external director on our Board of Directors since 2016. Ms. Krindel also serves as a director of Sol-Gel Technologies Ltd. (NASDAQ:SLGL), a pharmaceutical company, BGN Technologies Ltd., the technology transfer company of Ben Gurion University, and two medical device start-up companies and has served on the boards of directors of numerous companies publicly traded on Nasdaq. Between 1997 and 2007, Ms. Krindel served as Partner and Managing Partner of Star Ventures, a private venture capital fund headquartered in Munich, Germany. Between 1993 and 1997, Ms. Krindel served as CFO and later as director of BreezeCOM Ltd., an Israeli telecommunications company, which was traded on Nasdaq and the TASE. Between 1992 and 1996, Ms. Krindel served as CFO and VP Finance of Lannet Data Communications Ltd., an Israeli telecommunications company, publicly traded on Nasdaq which is now part of Avaya Inc. Ms. Krindel also served on the board of directors of Fundtech Ltd., which was traded on Nasdaq until its acquisition by GTCR, Voltaire Ltd. until its acquisition by Mellanox Technologies Ltd. and Syneron Medical until its acquisition by Apax. Ms. Krindel holds an M.B.A. degree from the Tel Aviv University and a B.A. in Economics and Japanese Studies from the Hebrew University of Jerusalem.

**Zipora (Tzipi) Ozer-Armon** has served as an external director on our Board of Directors since 2016. She currently serves as the Chief Executive Officer of Lumenis, a position she has held since joining Lumenis in May 2012. Prior to joining Lumenis, Ms. Ozer-Armon held various management positions at Teva Pharmaceutical Industries Ltd. since October 2009, most recently serving as head of Teva's Japanese market activities. Previously, Ms. Ozer-Armon held various management positions at SanDisk Corporation, following its acquisition of M-Systems Ltd., between 2006 and 2008, including Senior Vice President, Retail Sales and Marketing. Prior thereto, between 2004 and 2006, Ms. Ozer-Armon served as Corporate Vice President, General Manager of the DiskOnKey division at M-Systems Ltd. and between 1999 and 2004 as Vice President of Corporate Development at Comverse Inc. Between 1995 and 1999, Ms. Ozer-Armon served as Vice President at Shaldor Ltd., a management consulting firm based in Israel and between 1991 and 1995, Ms. Ozer-Armon served as Manager at the London office of A.T. Kearney, a global management consulting firm. In addition, Ms. Ozer-Armon served as an external director on the Board of Directors of Cargal Ltd., which was a TASE-listed company and was a member of its audit committee between February 2012 and December 2013. Ms. Ozer-Armon holds a B.A. degree in economics, magna cum laude, and an M.B.A. degree, majoring in finance and marketing, both from the Tel Aviv University.

#### **Additional Information**

There are no family relationships between any of the directors or members of senior management named above.

Our articles of association provide for a Board of Directors of not less than five (5) and not more than nine (9) members, including two external directors as required by the Companies Law. Our Board of Directors is currently composed of eight (8) directors (including the two (2) external directors). Officers serve at the pleasure of the Board of Directors, subject to the terms of any agreement between the officer and us.

Dr. Yaron and Messrs. Gerstel, Biran, Kolber, Cleary and Totah will serve as directors until our annual general meeting of shareholders to be held in 2019. Ms. Krindel Sieradzki and Ms. Ozer-Armon were elected as external directors in June 2016 for a three-year term.

We are not aware of any arrangements or understandings with major shareholders, customers, suppliers or others, pursuant to which any person referred to above was selected as a director or member of senior management.

## B. COMPENSATION

### Aggregate Executive Compensation

Our objective is to attract, motivate and retain highly skilled personnel who will assist Itamar Medical to reach its business objectives, performance and the creation of shareholder value and otherwise contribute to its long-term success. In March 2016 and October 2018, our shareholders approved amendments to the compensation policy for our executive officers and directors, or the Compensation Policy. The Compensation Policy was designed to correlate executive compensation with Itamar Medical's objectives and goals and otherwise embrace a performance culture that is based on merit, and differentiates and rewards excellent performance in the long term.

On October 9, 2018, we held a special general meeting of our shareholders. At the meeting, our shareholders approved amendments to the Compensation Policy relating to the criteria for our purchase of directors and officers liability insurance, primarily in order to (1) increase the maximum annual premium we may pay for such insurance from \$100,000 to \$150,000 (or \$350,000 for as long as we are subject to the SEC reporting requirements), and (2) allow us to purchase "run-off" directors and officers liability insurance in special events, such as public offerings or sale of our Company, provided such premium shall not exceed \$600,000.

The following table sets forth all compensation we paid with respect to all of our directors and executive officers as a group for the periods indicated\*:

	<u>Salaries, fees, commissions and bonuses</u>	<u>Pension, retirement and similar benefits</u>	<u>Share-based compensation</u>
	(dollars in thousands)		
2018 - All directors and executive officers as a group, consisting of 15 persons for the year ended December 31, 2018	\$ 1,925 <sup>(1)</sup>	\$ 125	\$ 771
2017 - All directors and executive officers as a group, consisting of 16 persons <sup>(2)</sup> for the year ended December 31, 2017	\$ 1,579	\$ 105	\$ 1,175

\* Since all or part of the compensation may be denominated in currencies other than the dollar, fluctuations in dollar amounts may be attributed to exchange rate fluctuations. In particular, for purposes of this table, cash compensation amounts denominated in currencies other than the dollar were converted into dollars at an exchange rate of NIS 3.597 per \$1.00, which reflects the average applicable conversion rate for 2018. The cost calculated for purposes of this table is calculated in accordance with IFRS as recognized in our financial statements for such year.

- (1) The bonuses include a special bonus to our CEO in the amount of \$72,000, which was approved by our Compensation Committee and Board of Directors, and is subject to shareholder approval.
- (2) Includes three persons who are no longer serving as one of our directors or executive officers and excludes two executive officers which were appointed during 2018.

We provide leased cars or reimbursement of car expenses to our executive officers in Israel (which amounts are included in the amounts provided in the above table) and reimbursement of other expenses pursuant to our standard policies and procedures.

During 2017, we granted to our directors and officers listed in Item 6A above:

- options to purchase, in the aggregate, 2,447,412 ordinary shares at a weighted average exercise price per share of NIS 1.25 (equivalent to \$0.35), of which (i) 1,529,864 are performance-based options that will vest in December 2021 if the price of our ordinary shares is, at such time, at least NIS 4.24 per share (equivalent to \$1.18), or 50% of such options will vest if the price of our ordinary shares is, at such time, at least NIS 1.70 per share (equivalent to \$0.47). In case that, on the applicable measurement date, the price of our ordinary shares is within the range between these two vesting-trigger share prices, the relative quantity of the options will vest, and (ii) 917,548 options will vest over a period of four years following the grant date. Of the 2,447,412 options, 550,000 options will expire five years from the grant date (i.e., in May 2022) and the balance of 1,897,412 options will expire in January 2026. The weighted average fair value of these options as of the grant date was \$0.17 per option; and
- 337,542 ordinary shares issuable upon the vesting of outstanding performance-based RSUs, which will vest in December 2020 if the price of our ordinary shares is, at such time, at least NIS 4.24 per share (equivalent to \$1.18), or 50% of such RSUs will vest if the price of our ordinary shares is, at such time, at least NIS 1.70 per share (equivalent to \$0.47). In case that, on the applicable measurement date, the price of our ordinary shares is within the range between these two vesting-trigger share prices, the relative quantity of the RSUs will vest. The weighted average fair value of these RSUs as of the grant date was \$0.11 per RSU.

During 2018, we also granted to our directors and officers listed in Item 6A above:

- options to purchase, in the aggregate, 1,165,256 ordinary shares at a weighted average exercise price per share of NIS 1.09 (equivalent to \$0.30), of which (i) 496,882 are performance-based options that will vest in December 2021 if the price of our ordinary shares is, at such time, at least NIS 4.24 per share (equivalent to \$1.18), or 50% of such options will vest if the price of our ordinary shares is, at such time, at least NIS 1.70 per share (equivalent to \$0.47). In case that, on the applicable measurement date, the price of our ordinary shares is within the range between these two vesting-trigger share prices, the relative quantity of the options will vest, and (ii) 668,374 options will vest over a period of four years following the grant date. Of the 1,165,256 options, 550,000 options will expire five years from the grant date (i.e., in May 2023) and the balance of 615,256 options will expire in January 2026. The weighted average fair value of these options as of the grant date was \$0.17 per option; and
- 115,036 ordinary shares issuable upon the vesting of outstanding performance-based RSUs, which will vest in December 2020 if the price of our ordinary shares is, at such time, at least NIS 4.24 per share (equivalent to \$1.18), or 50% of such RSUs will vest if the price of our ordinary shares is, at such time, at least NIS 1.70 per share (equivalent to \$0.47). In case that, on the applicable measurement date, the price of our ordinary shares is within the range between these two vesting-trigger share prices, the relative quantity of the RSUs will vest. The weighted average fair value of these RSUs as of the grant date was \$0.11 per RSU.

*For a discussion of the accounting method and assumptions used in valuation of such options and RSUs, see Note 15 to our audited consolidated financial statements included elsewhere in this annual report. See also “Item 6.E. - Directors, Senior Management and Employee – Share Ownership – Equity Incentive Plans” below.*

### **Individual Compensation of Covered Executives**

The table and summary below outline the compensation granted to our five most highly compensated “office holders” during or with respect to the year ended December 31, 2018. The Companies Law defines the term “office holder” of a company to include a director, the chief executive officer, the chief business manager, a vice president and any officer that reports directly to the chief executive officer. We refer to the five individuals for whom disclosure is provided herein as our “Covered Executives.”

For purposes of the table and the summary below, “compensation” includes base salary, bonuses (including sales commissions), equity-based compensation, retirement or termination payments, benefits and perquisites such as car, and social benefits and any undertaking to provide such compensation to each Covered Executive. All amounts reported in the table are in terms of cost to the Company for the year ended December 31, 2018\*.

Name and Principal Position (1)	Annual Base Salary (2)	Bonus (3)	Equity-Based Compensation (4)	All Other Compensation (5)	Total
(dollars in thousands)					
Gilad Glick, <i>President and Chief Executive Officer</i> (6) (7)	333	145	441	20	939
Shy Basson, <i>Chief Financial Officer</i>	187	74	78	64	403
Jacob Sheffy, PhD, <i>Senior Vice President of Research and Chief Technology Officer</i>	183	-	39	61	283
Itay Kariv, <i>Vice President of Research and Development</i>	155	-	41	60	256
Efrat Litman, <i>Vice President of Advanced Research and Development</i>	144	-	35	51	230

- \* Since all or part of the compensation may be denominated in currencies other than the dollar, fluctuations in dollar amounts may be attributed to exchange rate fluctuations. In particular, for purposes of this table, cash compensation amounts denominated in currencies other than the dollar were converted into dollars at an exchange rate of NIS 3.597 per \$1.00, which reflects the average applicable conversion rate for 2018. The cost calculated for purposes of this table is calculated in accordance with IFRS recognized in our financial statements for such year.
- (1) Unless otherwise indicated herein, all Covered Executives are engaged on a full-time (100%) basis.
- (2) Reflects the annual gross salary of the Covered Executives, other than Mr. Glick, who is engaged through a consultancy agreement, where such figure reflects the annual fixed compensation, including social benefits.
- (3) Amounts reported in this column represent annual bonuses granted to the Covered Executives. Consistent with our Compensation Policy, such bonuses are based upon (i) for the CEO – see footnote 6 below; and (ii) for the other executive officers - achievement of targets of revenues generated by the individual and/or his/her team or division and/or the Company, as well as, in appropriate circumstances, other measurable criteria, which, in general, may not exceed six monthly salaries. The calculation of the CEO's \$145,000 bonus for 2018 is comprised of: (i) a \$73,000 performance bonus based on the achievement of certain milestones under the CEO's bonus plan, as more fully described below; and (ii) a special bonus of \$72,000, which was approved by our Compensation Committee and Board of Directors, but is subject to shareholder approval. The calculation of the CFO's \$74,000 bonus for 2018 is comprised of: (i) a \$36,000 performance bonus based on the achievement of certain milestones under the CFO's bonus plan; and (ii) a special bonus of \$38,000, which was approved by our Compensation Committee and Board of Directors and is not subject to shareholder approval.
- (4) Amounts reported in this column represent the accounting expense recognized by the Company associated with stock-based compensation in accordance with accounting guidance for stock-based compensation. For a discussion of the assumptions used in reaching this valuation, see Note 15 to our audited consolidated financial statements. All of the awards were in the form of stock options or RSUs, and were made pursuant to one of our equity incentive plans. Vesting of the options and RSUs will accelerate upon certain change of control events.
- (5) Amounts reported in this column include benefits and perquisites, including those mandated by applicable law. Such benefits and perquisites may include, to the extent applicable to the Covered Executive, payments, contributions and/or allocations for savings funds (e.g., Managers Life Insurance Policy), education funds ("Keren Hishtalmu"), pension, severance, vacation, car or car allowance, medical insurances and benefits, risk insurances (e.g., life, or work disability insurance), convalescence or recreation pay, relocation, employers payments for social security, tax gross-up payments and other benefits and perquisites consistent with Itamar Medical's guidelines.
- (6) Consistent with our Compensation Policy, and as approved by our shareholders in May 2018, Mr. Glick is entitled to an annual bonus, subject to Mr. Glick achieving certain criteria and milestones set by our Compensation Committee and Board of Directors. The milestone for the annual bonus for the years 2018 through 2022 is based upon our annual revenue in such years, which is tied to our annual budget for the applicable year. The annual bonus payable to Mr. Glick for each year may not exceed an amount equal to 7.7 monthly salaries of Mr. Glick in such year, which is currently equal to a maximum annual bonus of approximately \$187,500.
- (7) As approved by our shareholders, Mr. Glick received in March 2016 (as amended in May 2018) a grant of (i) options to purchase up to 2,043,111 ordinary shares, at an exercise price of NIS 1.55 (equivalent to \$0.43), of which 510,778 options vest one year after the grant date, with the balance vesting in 12 equal quarterly installments; and (ii) 10,080,824 ordinary shares issuable upon the vesting of outstanding performance-based options and RSUs (consisting of 8,388,512 options with an exercise price of NIS1.40 (equivalent to \$0.39) and 1,692,512 RSUs with an exercise price of NIS 0.30 (equivalent to \$0.08)), which will vest on December 20, 2020, if the price of our ordinary shares is, at such time, at least NIS 4.24 per share (equivalent to \$1.18), or 50% of such options and RSUs will vest if the price of our ordinary shares is, at such time, at least NIS 1.70 (equivalent to \$0.47). In case that, on the applicable measurement date, the price of our ordinary shares is within the range between these two vesting-trigger share prices, the relative quantity of the RSUs will vest. These options and RSUs expire in 2026. Vesting of the options and RSUs will accelerate upon certain change of control events.



We have entered into written employment or services agreements with each of our executive officers. All of these agreements contain customary provisions regarding confidentiality, intellectual property assignment and non-solicitation provisions as well as an undertaking not to compete with us or in our field of business. However, the enforceability of the noncompetition provisions may be limited under applicable law. Members of our senior management may also be eligible for bonuses in accordance with our Compensation Policy and as set forth by our Compensation Committee and Board of Directors.

On May 23, 2018, we held our annual meeting of shareholders for 2018, at which our shareholders approved, among other matters, the following changes to the compensation payable to Mr. Glick, our President and Chief Executive Officer:

- monthly payment - effective April 1, 2018, the monthly payment shall be denominated in NIS (rather than in dollars) and such payment shall increase by 10% (at the time of the shareholder approval), from a monthly payment of \$26,176 plus VAT to NIS 102,450 (equivalent to approximately \$28,400) plus VAT; This amount includes the equivalent of base salary and the total cost of social benefits payable to Mr. Glick;
- modification of the performance criteria related to the vesting of stock options and RSUs previously granted to our President and Chief Executive Officer – Mr. Glick received in March 2016 a grant of (i) options to purchase up to 2,043,111 ordinary shares, at an exercise price of NIS 1.55 (equivalent to approximately \$0.43), of which 510,778 options vest one year after the grant date, with the balance vesting in 12 equal quarterly installments; and (ii) 10,080,824 ordinary shares issuable upon the exercise of 8,388,512 outstanding performance-based stock options and the vesting of 1,692,312 outstanding performance-based RSUs, which will vest on January 21, 2020 if the price of our ordinary shares is, at such time, at least NIS 4.24 per share (equivalent to \$1.18), or 50% of such options and RSUs will vest if the price of our ordinary shares is, at such time, at least NIS 2.13 per share (equivalent to \$0.59). At the annual meeting, our shareholders approved that (i) the above minimum trading price will be reduced from NIS 2.13 (equivalent to \$0.59) to NIS 1.70 (equivalent to \$0.47) and (ii) a change of the January 21, 2020 vesting date to December 20, 2020; and
- an annual cash bonus for the years 2018 through 2022 – At the annual meeting, our shareholders approved that Mr. Glick will be entitled to an annual cash bonus in each of the years 2018 to 2022 (inclusive), or the bonus years, as follows:
  - o a maximum bonus of up to 7.7 monthly base salaries (excluding the social benefits component) per year (which, based on his current monthly base salary, equates to \$187,500).
  - o The bonus is payable subject to meeting sales revenue goals that reflect growth in our revenues at a rate to be determined by the Compensation Committee and the Board of Directors by the end of the first quarter of each bonus year as part of the annual budget approval. The sales revenue goal for each bonus year is divided into three levels of sales revenues: the minimum goal, the target goal and the maximum entitlement goal.
  - o In the event that the actual sales revenues in any bonus year are within the range between two goals (the minimum goal and the target goal or between the target goal and the maximum entitlement goal), the amount of the bonus shall be calculated linearly based on the increase in sales revenue in that bonus year.
  - o Payment of the bonus is also contingent on meeting a minimum operating income or a maximum operating loss goal. Such operating income or operating loss is on an adjusted, non-IFRS basis, which neutralizes certain non-cash and non-recurring components.

- o For the purpose of examining compliance with the said goals at the end of each relevant year, the effects of the following events (relative to that bonus year's budget) will be neutralized: (1) an increase our expenses for clinical trials (both in view of the entry into a new clinical trial and in light of the expansion of existing clinical trial); (2) increase or decrease in our costs in respect of payments to sales personnel (including costs of recruiting new sales personnel); (3) expenses associated with changing the reimbursement policy of medical insurers during the budget year and/or changes in the standard requirements applicable to our products; (4) expenses related to the process of listing on Nasdaq; (5) expenses incurred by our Company in respect of listing of securities for trading or sale in the United States solely for sales by our shareholders that exercise their registration rights or expenses in respect of unsuccessful capital raising; and (6) expenses related to the annual bonus to our chief executive officer or to any other officer in that year.
- o The annual bonus is payable once a year, following the approval of our annual financial statements for the preceding year.

### **Compensation of Non-Employee Directors**

All of our directors are entitled to reimbursement of expenses. In addition, other than Mr. Cleary (who is entitled only to reimbursement of expenses), our non-employee directors, including external directors, receive the following compensation:

- Dr. Yaron, the chairman of our Board of Directors, is entitled, pursuant to the consultancy agreement we entered into with a company wholly owned by Dr. Yaron in March 2001 (as amended), to a monthly payment of \$6,250, plus VAT. Under the agreement, Dr. Yaron is required to provide us with consulting services, including service as a chairman of our Board of Directors, on a part-time basis of 20% of the work week.
- Mr. Biran, Ms. Krindel Sieradzki and Ms. Ozer-Armon are each entitled to an annual fee of NIS 48,915 (equivalent to approximately \$13,300) and attendance fees of NIS 3,270 (equivalent to approximately \$900) per meeting attended, linked to the Israeli CPI.
- Messrs. Gerstel, Kolber and Totah are each entitled (in the case of Messrs. Kolber and Totah, by payment to an affiliate of Viola) to an annual fee of NIS 36,745 (equivalent to approximately \$10,000) and attendance fees of NIS 2,455 (equivalent to approximately \$700) per meeting attended, linked to the Israeli CPI.

According to the Compensation Policy, directors and officers may be granted equity-based compensation subject to certain criteria and limitations set forth therein, including the following:

- grants may be made not more than twice a year for officers and not more than once a year for directors;
- equity-based awards shall vest as determined by us at the time of grant. However, other than in the event of acceleration, no portion of any grant may vest prior to the end of the one year anniversary of the date of grant or from the commencement date of the directors' or officers' engagement with us;
- the equity-based award shall have a fair value that will not exceed, with respect to each year of vesting (measured on a linear basis), the equivalent of (i) the value of 18 months' salary with respect to the chief executive officer, (ii) six months' salary with respect to each other officer, and (iii) NIS 300,000 (equivalent to approximately \$83,200) for each director; and
- the exercise price of options whose vesting is subject to the passage of time (and not subject to meeting milestones) will be no less than the average fair market value of the ordinary shares for the thirty (30) trading days prior to the date such grant was approved by our Board of Directors multiplied by 105%.

Consistent with the Compensation Policy and as further approved by our shareholders, we made the following grants of equity-based awards to our non-employee directors from January 1, 2017 to December 31, 2018:

- 550,000 options to five directors (namely, to Dr. Yaron, Mr. Gerstel, Mr. Biran and to Viola Growth Management Fund 2 Ltd., or Viola 2, in respect of the services of Messrs. Kolber and Totah) in May 2017 at an exercise price of NIS 1.45 (equivalent to \$0.40) per share. These options will vest over a period of four years following the grant date and will expire five years from the grant date (i.e., in May 2022); and
- 550,000 options to five directors (namely, to Dr. Yaron, Mr. Gerstel, Mr. Biran and to Viola 2 in respect of the services of Messrs. Kolber and Totah) in May 2018 at an exercise price of NIS 1.14 (equivalent to \$0.32) per share. These options will vest over a period of four years following the grant date and will expire five years from the grant date (i.e., in May 2023).

The aforesaid stock options granted to the non-employee directors are part of a grant that was divided into three equal tranches. The allotment and the vesting period for the first tranche begins on the date of grant (550,000 options allotted on May 14, 2017); the allotment and the vesting period for the second tranche begins on first anniversary of the date of grant (550,000 options allotted on May 23, 2018); and the allotment and the vesting period for the third tranche begins on the third anniversary of the date grant (550,000 options that will be allotted to directors, if reelected at the next annual shareholders' meeting, on the date of such annual meeting, currently expected to be held in May 2019). Each tranche vests in four equal portions annually over four years. The exercise price for each tranche is set on the date of allotment and is based on the average market price of our ordinary shares on the TASE for a period of 30 consecutive trading days prior to each allotment date, plus 10%.

*For additional details regarding the stock options granted to non-employee directors, see Note 15a to our audited consolidated financial statements included elsewhere in this annual report.*

Other than the foregoing fees, reimbursement for expenses and the award of stock options, we do not compensate our directors for serving on our Board of Directors.

### **Change of Control Arrangements**

All of our executive officers as well as certain additional key employees are entitled to accelerated vesting of the ordinary shares subject to outstanding options and RSUs granted to them in connection with a sale of the Company or similar change of control events.

## **C. BOARD PRACTICES**

### **Introduction**

According to the Companies Law and our articles of association, the management of our business is vested in our Board of Directors. The Board of Directors may exercise all powers and may take all actions that are not specifically granted to our shareholders and, according to the Companies Law and our articles of association is primarily responsible for outlining our policies and supervising our chief executive officer.

### **Election of Directors; Board Meetings**

Under our articles of association, our Board of Directors must consist of not less than five (5) and not more than nine (9) members, including two external directors as required by the Companies Law. Our Board of Directors is currently composed of eight (8) directors (including two (2) external directors). Pursuant to applicable Nasdaq rules, following our listing on the Nasdaq Capital Market, director nominees will be recommended for the Board of Directors' selection by a majority of our "independent directors" within the meaning of the Nasdaq rules.

Pursuant to our articles of association, other than the external directors, for whom special election and removal requirements apply under the Companies Law (as described below), the vote required to appoint a director is a simple majority vote of holders of our ordinary shares participating and voting at the relevant shareholders meeting. Our articles of association provide that, unless otherwise provided by law, our directors (other than external directors and "independent directors" as such term is defined by the Companies Law) may be elected solely at our shareholders annual general meetings, which are required to be held at least once during every calendar year and not more than fifteen months after the last preceding annual general meeting. However, our articles of association allow our Board of Directors to appoint directors to fill vacancies on our Board of Directors, which occurred for any reason, or as additional directors, provided that the number of board members shall not exceed the maximum number of directors, as mentioned above. The appointment of a director by the Board of Directors shall remain in effect until the annual general meeting of our shareholders following the appointment or until the end of his tenure, in accordance with our articles of association.

Except for our external directors (as described below), our directors hold office until the next annual meeting of shareholders following the annual meeting at which they were appointed.

Under our articles of association and the Companies Law, (i) directors (other than external directors and "independent directors" as such term is defined by the Companies Law) may be removed by our shareholders before the expiration of their term by a special majority vote of at least 75% of the votes of shareholders present and voting at the meeting, not taking into account abstentions; (ii) external directors may be removed by our shareholders before the expiration of their term only in limited circumstances as described under the section titled "External Directors" below; and (iii) "independent directors" (as such term is defined by the Companies Law) may be removed before the expiration of their term only by a simple majority of the shareholders, or by a court, and then only if the independent directors cease to meet the statutory qualifications with respect to their appointment or if they violate their duty of loyalty to the Company. In addition, under the Companies Law, directors may be removed upon the occurrence of disqualifying events, such as bankruptcy or conviction of the director in certain criminal offenses.

Under the Companies Law, our Board of Directors is required to determine the minimum number of directors who must have “accounting and financial expertise” (as such term is defined in regulations promulgated under the Companies Law). Our Board of Directors determined that the Board of Directors should consist of at least two directors who have “accounting and financial expertise”. In this respect, our Board of Directors has determined that each of Ms. Krindel Sieradzki, Ms. Ozer-Armon and Mr. Ilan Biran have the requisite “accounting and financial expertise”.

Meetings of the Board of Directors are generally held at least once each quarter, with additional special meetings scheduled when required.

#### **Alternate directors**

Our articles of association provide, as allowed by the Companies Law, that any director may, by written notice to us, appoint another person who is qualified to serve as a director to serve as an alternate director. The alternate director will be regarded as a director. However, the appointment of an alternate director does not negate the responsibilities of the appointing director and such responsibilities prior to the appointment will continue to be the responsibilities of the appointing director, giving consideration to the circumstances of the appointment. Under the Companies Law, a person who is not qualified to be appointed as a director, a person who is already serving as a director or a person who is already serving as an alternate director for another director, may not be appointed as an alternate director. Nevertheless, a director who is already serving as a director may be appointed as an alternate director for a member of a committee of the Board of Directors so long as he or she is not already serving as a member of such committee, and if the alternate director is to replace an external director, he or she is required to be an external director and to have either “accounting and financial expertise” or “professional qualifications,” depending on the qualifications of the external director he or she is replacing. The term of appointment of an alternate director may be for one meeting of the Board of Directors or until notice is given of the cancellation of the appointment.

#### **External Directors**

The Companies Law requires Israeli companies with shares that have been offered to the public, such as Itamar Medical, to appoint at least two external directors. Effective from April 2016, companies whose shares are traded on specified U.S. stock exchanges, including Nasdaq, and which do not have a controlling shareholder, may (but are not required to) elect to opt out of the requirement to maintain external directors or retain external directors but opt out of the composition requirements under the Companies Law with respect to either or both of the audit and compensation committees. Nonetheless, we have not opted out and currently follow the foregoing requirements of the Companies Law.

To qualify as an external director, an individual (or the individual’s relative, partner, employer or any entity under the individual’s control) may not have, and may not have had at any time during the previous two years, (i) in a company such as Itamar Medical (where Viola is considered a controlling shareholder according to the Companies Law), any “affiliation” with the company, the company’s controlling shareholder or its relative, or another entity affiliated with the company or its controlling shareholder, or (ii) in a company without a controlling shareholder (or a shareholder that owns more than 25% of its voting power), any “affiliation” with any person who, at the time of appointment, is the chairman, the chief executive officer, the chief financial officer or a 5% shareholder of the company. The term affiliation includes:

- an employment relationship;
- a business or professional relationship;
- control; and
- service as an “office holder,” excluding service as a director that was appointed to serve as an external director of a company that is about to make its initial public offering.

In addition, pursuant to the Companies Law, (i) an external director must have either “accounting and financial expertise” or “professional qualifications” (as such terms are defined in regulations promulgated under the Companies Law; and (ii) at least one of the external directors must have “accounting and financial expertise”. Our external directors are Ms. Krindel Sieradzki and Ms. Ozer-Armon. We have determined that both Ms. Krindel Sieradzki and Ms. Ozer-Armon have the requisite “accounting and financial expertise”.

No person may serve as an external director if the person's position or other activities create, or may create a conflict of interest with the person's responsibilities as an external director or may otherwise interfere with the person's ability to serve as an external director. If, at the time an external director is to be appointed, all current members of the Board of Directors who are not controlling shareholders or their relatives are of the same gender, then the external director must be of the other gender.

External directors are elected by shareholders. The shareholders voting in favor of their election must include at least a majority of the shares of the non-controlling shareholders of the company who voted on the matter. This minority approval requirement need not be met if the total shareholdings of those non-controlling shareholders who vote against their election represent 2% or less of all of the voting rights in the company.

The initial term of an external director is three years and he or she may be reelected for up to two additional three-year terms. Thereafter, in a company whose shares are listed for trading on, among others, the Nasdaq Capital Market, such as Itamar Medical, he or she may be reelected by our shareholders for additional periods of up to three years each, if our Audit Committee and the Board of Directors confirm that, in light of the external director's expertise and special contribution to the work of the Board of Directors and its committees, the reelection for such additional period is beneficial to the Company. Reelection of an external director may be effected through one of the following mechanisms: (i) the Board of Directors proposed the reelection of the nominee and the election was approved by the shareholders by the majority required to appoint external directors for their initial term as described above; or (ii) a shareholder holding 1% or more of the voting rights proposed the reelection of the nominee or the external director himself or herself proposed their own reelection, and the reelection is approved by a majority of the votes cast by the shareholders of the company, excluding the votes of controlling shareholders and those who have a personal interest in the matter as a result of their relations with the controlling shareholders; provided that the aggregate votes cast in favor of the reelection by such non-excluded shareholders constitute more than 2% of the voting rights in the company.

External directors can be removed from office only by the same special percentage of shareholders as can elect them, or by a court, and then only if the external directors cease to meet the statutory qualifications with respect to their appointment or if they violate their duty of loyalty to the company.

Any committee of the Board of Directors must include at least one external director, except that the audit and compensation committees must include all of the external directors. An external director is entitled to compensation as provided in regulations adopted under the Companies Law and is otherwise prohibited from receiving any other compensation, directly or indirectly, in connection with such service.

### **Independent Directors**

Under the Nasdaq rules, a majority of our Board of Directors must qualify as independent directors within the meaning of Nasdaq Listing Rule 5605 (a)(2). Our Board of Directors has determined that all of our directors qualify as "independent directors" within the meaning of such rule.

Under the Companies Law, a public company, like Itamar Medical, may classify one or more of its directors as an "independent director" within the meaning of the Companies Law if they are either external directors or directors who: (1) meet the qualification requirements of an external director (as described above), other than the requirement to possess accounting and financial expertise or professional qualifications, with audit committee confirmation of such; and (2) have been directors in the company for an uninterrupted duration of less than nine years (and any interim period during which such person was not a director which is less than two years shall not be deemed to interrupt the duration). Our Board of Directors has determined, following confirmation of our Audit Committee, to classify Mr. Ilan Biran as an "independent director" within the meaning of the Companies Law.

### **Committees of the Board of Directors**

Subject to the provisions of the Companies Law, our Board of Directors may delegate its powers to committees consisting of board members. Our Board of Directors has established an audit committee and a compensation committee, and, from time to time, establishes other "ad-hoc" committees of members of the Board of Directors for specific duties or assignments and limited duration.

#### *Audit Committee*

Pursuant to applicable SEC and Nasdaq rules, we are required to have an audit committee of at least three members, each of whom must satisfy the independence requirements of the SEC and Nasdaq. In addition, pursuant to Nasdaq rules, all of the members of the audit committee must be financially literate and at least one member must possess accounting or related financial management expertise. The audit committee must also have a written charter specifying the committee's duties and responsibilities, which include, among other things, the selection and evaluation of our independent auditors.

Under the Companies Law, our Board of Directors is required to appoint an audit committee, which must be comprised of at least three directors, include all of the external directors, a majority of its members must satisfy the independence standards under the Companies Law, and the chairman is required to be an external director. The duties of the audit committee under the Companies Law include, among others, examining flaws in the business management of the company and suggesting remedial measures to the Board, assessing the Company's internal audit system and the performance of its internal auditor, and, as more fully described under Item 10.B. below, approval of certain interested party transactions.

Our Audit Committee adopted a written charter (to be effective upon the listing of our ADSs on the Nasdaq Capital Market) specifying the committee's duties and responsibilities, which include, among other things, assisting our Board of Directors in overseeing the accounting and financial reporting processes of our Company and audits of our financial statements, including the integrity of our financial statements; compliance with legal and regulatory requirements; our independent public accountants' appointment, qualifications and independence; the performance of our internal audit function and independent public accountants; finding any defects in the business management of our Company for which purpose the Audit Committee may consult with our independent auditors and internal auditor and proposing to the Board of Directors ways to correct such defects; approving related-party transactions; and such other duties as may be directed by our Board of Directors or required by applicable law.

In addition, pursuant to the audit committee charter, our Audit Committee functions as our Qualified Legal Compliance Committee, or the QLCC. In its capacity as the QLCC, the Audit Committee is also responsible for investigating reports made by attorneys appearing and practicing before the SEC in representing us of perceived material violations of U.S. federal or state securities laws, breaches of fiduciary duty or similar violations by us or any of our agents.

Our Audit Committee is currently composed of Ms. Krindel Sieradzki, the chairperson of our Audit Committee, Ms. Ozer-Armon and Mr. Ilan Biran, all of whom satisfy the respective "independence" requirements of the Companies Law, SEC and Nasdaq rules for audit committee members.

#### *Compensation Committee*

Pursuant to applicable Nasdaq rules, the compensation payable to a company's chief executive officer and other executive officers must generally be approved by a compensation committee comprised solely of independent directors.

Under the Companies Law, our Board of Directors is required to appoint a compensation committee, which must be comprised of at least three directors, include all of the external directors, its other members must satisfy certain independence standards under the Companies Law, and the chairman is required to be an external director. Under the Companies Law, the role of the compensation committee is to recommend to the Board of Directors, for ultimate shareholder approval by a special majority, a policy governing the compensation of office holders based on specified criteria; to review, from time to time, modifications to the compensation policy and examine its implementation; to approve, as more fully described under "Approval of Related Party Transactions Under Israeli Law" below, the actual compensation terms of office holders prior to approval thereof by the Board of Directors; and to resolve whether to exempt the compensation terms of a candidate for chief executive officer from shareholder approval.

Our Compensation Committee adopted a written charter (to be effective upon the listing of our ADSs on the Nasdaq Capital Market) specifying the committee's duties and responsibilities, which include, among other things, the duties and roles assigned to it pursuant to the Companies Law and applicable Nasdaq rules described above; and oversight and administration of our equity based plans.

Our Compensation Committee is currently composed of Ms. Ozer-Armon, the chairperson of our Compensation Committee, Ms. Krindel Sieradzki and Mr. Gerstel, all of whom satisfy the respective "independence" requirements of the Companies Law, SEC and Nasdaq rules for compensation committee members. The committee meets at least once each quarter, with additional special meetings scheduled when required.

#### **Internal Auditor**

Under the Companies Law, our Board of Directors is also required to appoint an internal auditor proposed by the audit committee. The role of the internal auditor is to examine, among other things, whether our activities comply with the law and orderly business procedure. The internal auditor may not be an interested party or office holder, or a relative of any interested party or office holder, and may not be a member of our independent accounting firm. The Companies Law defines the term "interested party" to include a person who holds 5% or more of a company's outstanding share capital or voting rights, a person who has the right to appoint one or more directors or the general manager, or any person who serves as a director or as the general manager. Ms. Irena Ben-Yakar of Brightman Almagor & Zohar (Deloitte Israel), an Israeli accounting firm, serves as our internal auditor.

## Directors' Service Contracts

*Our Chairman of the Board.* We entered into a services agreement with a company wholly owned by Dr. Giora Yaron, the Chairman of our Board of Directors. See Item 6.B "Directors, Senior Management and Employees – Compensation – Individual Compensation of Covered Executives."

*Other.* Except as set forth above and in Item 6.B "Directors, Senior Management and Employees – Compensation," there are no arrangements or understandings between us and any of our current directors or executive officers for benefits upon termination of service.

## Fiduciary Duties of Office Holders

The Companies Law imposes a duty of care and a duty of loyalty on all office holders of a company.

The duty of care requires an office holder to act with the level of skill with which a reasonable office holder in the same position would have acted under the same circumstances. The duty of care of an office holder includes a duty to use reasonable means to obtain:

- information on the advisability of a given action brought for his approval or performed by him by virtue of his position; and
- all other important information pertaining to these actions.

The duty of loyalty of an office holder requires an office holder to act in good faith and for the benefit of the company, and includes a duty to:

- refrain from any conflict of interest between the performance of his duties in the company and his performance of his other duties or personal affairs;
- refrain from any action that constitutes competition with the company's business;
- refrain from exploiting any business opportunity of the company to receive a personal gain for himself or others; and
- disclose to the company any information or documents relating to the company's affairs which the office holder has received due to his position as an office holder.

Each person listed in the table under Item 6.A "Directors and Senior Management" above is considered an office holder under the Companies Law.

## Approval of Related Party Transactions under Israeli Law

*General.* Under the Companies Law, a company may approve an action by an office holder from which the office holder would otherwise have to refrain, as described above, if:

- the office holder acts in good faith and the act or its approval does not cause harm to the company; and
- the office holder disclosed the nature of his or her interest in the transaction (including any significant fact or document) to the company at a reasonable time before the company's approval of such matter.

*Disclosure of Personal Interests of an Office Holder.* The Companies Law requires that an office holder disclose to the company, promptly, and, in any event, not later than the board meeting at which the transaction is first discussed, any direct or indirect personal interest that he or she may have and all related material information known to him or her relating to any existing or proposed transaction by the company. If the transaction is an extraordinary transaction, the office holder must also disclose any personal interest held by:

- the office holder's relatives. Relatives are defined to include the spouse, siblings, parents, grandparents, descendants, spouse's descendants and the spouses of any of these people; or
- any corporation in which the office holder or his or her relatives holds 5% or more of the shares or voting rights, serves as a director or general manager or has the right to appoint at least one director or the general manager.

Under the Companies Law, an extraordinary transaction is a transaction:

- not in the ordinary course of business;
- not on market terms; or
- that is likely to have a material impact on the company's profitability, assets or liabilities.

The Companies Law does not specify to whom within the company nor the manner in which required disclosures are to be made. We require our office holders to make such disclosures to our Board of Directors.

Under the Companies Law, once an office holder complies with the above disclosure requirement, the Board of Directors may approve a transaction between the company and an office holder, or a third party in which an office holder has a personal interest, unless the articles of association provide otherwise and provided that the transaction is not detrimental to the company's interest. If the transaction is an extraordinary transaction, first the audit committee and then the board of directors, in that order, must approve the transaction. Under specific circumstances, shareholder approval may also be required. A director who has a personal interest in an extraordinary transaction, which is considered at a meeting of the board of directors or the audit committee, may not be present at this meeting or vote on this matter, unless a majority of the Board of Directors or the audit committee, as the case may be, has a personal interest. If a majority of the Board of Directors has a personal interest, then shareholder approval is generally also required.

*Approval of Office Holder Compensation.* Pursuant to the Companies Law, every Israeli public company, such as Itamar Medical, must adopt a compensation policy, recommended by the compensation committee, and approved by the Board of Directors and the shareholders, in that order. The shareholder approval requires a majority of the votes cast by shareholders, excluding any controlling shareholder and those who have a personal interest in the matter. In general, all office holders' terms of compensation – including fixed remuneration, bonuses, equity compensation, retirement or termination payments, indemnification, liability insurance and the grant of an exemption from liability – must comply with the company's compensation policy. In October 2018, our shareholders approved the Compensation Policy (as then amended).

In addition, the compensation terms of directors, the chief executive officer, and any employee or service provider who is considered a controlling shareholder, must be approved separately by the compensation committee, the Board of Directors and, subject to certain exceptions, the shareholders of the company (by the same majority noted above), in that order. The compensation terms of other officers require the approval of the compensation committee and the board of directors.

#### **Exculpation, Indemnification and Insurance of Directors and Officers**

*Exculpation of Office Holders.* Under the Companies Law, an Israeli company may not exempt an office holder from his or her liability for a breach of the duty of loyalty to the company, but may exempt an office holder, in advance, from his or her liability, in whole or in part, for a breach of his or her duty of care to the company (except with regard to distributions), if the articles of association so provide. Our articles of association permit us to exempt our office holders, retroactively or in advance, from his or her liability, in whole or in part, for a breach of his or her duty of care to the company, up to the highest amount permitted by law.

*Office Holders' Insurance.* As permitted by the Companies Law, our articles of association provide that, subject to the provisions of the Companies Law, we may enter into a contract for the insurance of the liability of any of our office holders concerning an act performed by him or her in his or her capacity as an office holder for:

- a breach of his or her duty of care to us or to another person;
- a breach of his or her duty of loyalty to us, provided that the office holder acted in good faith and had reasonable cause to assume that his or her act would not prejudice our interests;
- a financial liability imposed upon him or her in favor of another person;
- expenses he or she incurs as a result of administrative proceedings that may be instituted against him or her under Israeli securities laws, if applicable, and payments made to injured persons under specific circumstances thereunder;
- expenses he or she incurs as a result of administrative proceedings that may be instituted against him or her, including reasonable litigation expenses; and
- any other matter in respect of which it is permitted or will be permitted under applicable law to insure the liability of an office holder in the Company.



*Indemnification of Office Holders.* As permitted by the Companies Law, our articles of association provide that we may indemnify any of our office holders for an act performed in his or her capacity as an office holder, retroactively (after the liability has been incurred) or in advance against the following:

- a financial liability incurred by, or imposed on, him or her in favor of another person by any judgment, including a settlement or an arbitration award approved by a court; provided that our undertaking to indemnify with respect to such events on a prospective basis is, according to the Companies Law, limited to events that our Board of Directors believes are foreseeable in light of our actual operations at the time of providing the undertaking and to a sum or standard that our Board of Directors determines to be reasonable under the circumstances, and further provided that such events and amount or criteria are set forth in the undertaking to indemnify;
- reasonable litigation expenses, including attorney's fees, incurred by the office holder as a result of an investigation or proceeding instituted against him by a competent authority, provided that such investigation or proceeding concluded without the filing of an indictment against him or concluded with the imposition of a financial liability in lieu of criminal proceedings with respect to a criminal offense that does not require proof of criminal intent, all according to the law, or in connection with a financial sanction;
- reasonable litigation expenses, including attorneys' fees, incurred by the office holder or charged to him or her by a court, resulting from the following: proceedings we institute against him or her or instituted on our behalf or by another person; a criminal indictment from which he or she was acquitted; or a criminal indictment in which he or she was convicted for a criminal offense that does not require proof of intent;
- expenses he or she incurs as a result of administrative proceedings that may be instituted against him or her under Israeli securities laws, if applicable, and payments made to injured persons under specific circumstances thereunder;
- expenses paid in connection with the administrative proceeding which was instituted against him or her, including reasonable litigation expenses, such as attorneys' fees; and
- any other matter in respect of which it is permitted or will be permitted under applicable law to indemnify an office holder in the Company.

*Limitations on Exculpation, Insurance and Indemnification.* The Companies Law provides that a company may not indemnify an office holder nor exculpate an office holder nor enter into an insurance contract which would provide coverage for any monetary liability incurred as a result of any of the following:

- a breach by the office holder of his or her duty of loyalty, unless with respect to indemnification and insurance, the office holder acted in good faith and had a reasonable basis to believe that the act would not prejudice the company;
- a breach by the office holder of his or her duty of care if the breach was committed intentionally or recklessly, unless it was committed only negligently;
- any act or omission committed with the intent to derive an illegal personal benefit; or
- any fine levied against the office holder.

In addition, under the Companies Law, exculpation of, an undertaking to indemnify or indemnification of, and procurement of insurance coverage for, our office holders must be approved by our Compensation Committee and our Board of Directors and, in specified circumstances, such as if the office holder is a director, is generally required to be approved by our shareholders.

We have entered into agreements with each of our current directors and executive officers to indemnify them to the fullest extent permitted by law, subject to limited exceptions. The maximum aggregate amount of indemnification that we may pay to our directors and executive officers based on such indemnification agreements is, generally, NIS 15.0 million (equivalent to approximately \$4.1 million) (linked to the Israeli CPI) for all office holders.

We also currently maintain directors' and officers' liability insurance with an aggregate coverage limit of \$25 million, with a Side A coverage of an additional \$5 million, for an annual premium of approximately \$270,000.

#### D. EMPLOYEES

The following table details certain data on the workforce of Itamar Medical and its consolidated subsidiaries as of the dates indicated:

	As of December 31,		
	2018	2017	2016
<i>Numbers of employees by geographic location</i>			
United States	55	43	46
Israel	97	94	88
Japan	1	1	9
<b>Total workforce</b>	<b>153</b>	<b>138</b>	<b>143</b>
<i>Numbers of employees by category of activity</i>			
Sales and marketing	31	27	35
Support in sales and marketing	21	15	20
Management and administrative	21	20	21
Operations, engineering and manufacturing	63	62	54
Research, development and technologies	17	14	13
<b>Total workforce</b>	<b>153</b>	<b>138</b>	<b>143</b>

The overall increase in our workforce, from 138 employees in 2017 to 153 employees in 2018, was primarily due to recruitment of sales and marketing personnel (including support in sales and marketing personnel), mainly in the U.S., as a result of the expansion into new geographic territories in the U.S. and an increase in research, development and technologies personnel in Israel. The overall decrease in our workforce, from 143 employees in 2016 to 138 employees in 2017, was primarily due to the reduction of mid-level management personnel in the U.S. Subsidiary and the reduction in the operations of our Japanese subsidiary.

We consider our relations with our employees to be good and we have never experienced a strike or work stoppage.

Our employees are not represented by labor unions. Nevertheless, with respect to our employees in Israel, certain provisions of the collective bargaining agreements between the 'Histadrut' (General Federation of Labor in Israel) and the Coordination Bureau of Economic Organizations (including the Industrialists' Association) may be applicable to our employees by virtue of an order of the Israeli Ministry of Labor, Social Affairs and Social Services. These provisions concern mainly the length of the workday, minimum daily wages, insurance for work-related accidents, determination of severance pay and other conditions of employment. We generally provide our employees with benefits and working conditions beyond the required minimums.

Pursuant to Israeli law, we are legally required to pay severance benefits upon certain circumstances, including the retirement or death of an employee or the termination of employment of an employee without due cause. Israeli employers and employees are required to pay predetermined amounts to the National Insurance Institute, which is substantially similar to the United States Social Security Administration. In 2018, payments to the National Insurance Institute contributed by us, as the employer, amounted to approximately 6.4% of wages.

## E. SHARE OWNERSHIP

### Beneficial Ownership of Executive Officers and Directors

The following table lists, as of March 17, 2019, the number of our ordinary shares beneficially owned by each of our directors and executive officers and our directors and executive officers as a group:

	Number of Ordinary Shares Beneficially Owned (1)	Percentage of Outstanding Ordinary Shares (2)
Giora Yaron, PhD	30,844,425(3)	9.21%
Gilad Glick	3,449,482(4)	1.02%
Shy Basson	183,774(5)	*
Shlomo Ayanot	1,626,174(6)	*
Jacob (Koby) Sheffy, PhD	1,948,752(7)	*
Itay Kariv	136,732(8)	*
Efrat Litman	624,631(9)	*
Eilon Livne	91,419(10)	*
Martin Gerstel	15,515,157(11)	4.64%
Ilan Biran	380,417(12)	*
Jonathan Kolber	—(13)	*
Sami Totah	—(14)	*
Christopher M. Cleary	—(15)	*
Yaffa Krindel Sieradzki	82,500(16)	*
Zipora (Tzipi) Ozer-Armon	82,500(17)	*
Directors and officers as a group (consisting of 15 persons) *	54,965,965(18)	16.07%

\* Less than 1% of our outstanding shares.

- (1) Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Ordinary shares relating to convertible securities (such as warrants and options) currently exercisable or exercisable within 60 days of the date of this table are deemed outstanding for computing the percentage of the person holding such securities but are not deemed outstanding for computing the percentage of any other person. Except as indicated by footnote, and subject to community property laws where applicable, the persons named in the table above have sole voting and investment power with respect to all shares shown as beneficially owned by them.
- (2) The percentages shown are based on 333,902,421 shares issued and outstanding as of March 17, 2019. This figure of outstanding ordinary shares excludes (i) 39,876,606 ordinary shares issuable upon the exercise of outstanding warrants, exercisable at an exercise price of NIS 1.745 (equivalent to \$0.48) per share, with the latest expiration date of these warrants being May 4, 2019; (ii) 1,197,132 ordinary shares issuable upon the exercise of outstanding warrants issued to a bank, exercisable at an exercise price of between NIS1.30 and NIS 1.36 (equivalent to between \$0.36 and \$0.38) per share, with the latest expiration date of these warrants being March 28, 2023; (iii) 3,441,420 ordinary shares issuable upon the vesting of RSUs; and (iv) employee stock options to purchase an aggregate of 32,221,593 ordinary shares at a weighted average exercise price of approximately NIS 1.37 (equivalent to \$0.38) per share, with the latest expiration date of these options being January 2026 (of which, options to purchase 10,053,491 of our ordinary shares were exercisable as of March 17, 2019).
- (3) Includes (i) 29,722,133 ordinary shares; (ii) 741,875 ordinary shares issuable upon exercise of Warrants (Series 4) at an exercise price of NIS 1.745 (equivalent to \$0.48) per share. The warrants expire on May 4, 2019; and (iii) 380,417 ordinary shares issuable upon exercise of stock options at exercise prices ranging between NIS 1.14 and NIS 1.79 (equivalent to between \$0.32 and \$0.50) per share. These options expire between 2021 and 2024. Some of these securities are held through a company wholly owned by Dr. Yaron.
- (4) Includes (i) 318,622 ordinary shares; and (ii) 3,130,860 ordinary shares issuable upon exercise of stock options at exercise prices ranging between NIS 1.55 and NIS 1.71 (equivalent to between \$0.43 and \$0.47) per share. These options expire between 2023 and 2026.
- (5) Includes 183,774 ordinary shares issuable upon exercise of stock options at an exercise price of NIS1.28 (equivalent to \$0.36) per share. These options expire in 2026.
- (6) Includes (i) 871,986 ordinary shares; and (ii) 754,188 ordinary shares issuable upon exercise of stock options at exercise prices ranging between NIS 0.23 and NIS 1.73 (equivalent to between \$0.06 and \$0.48) per share. These options expire between 2019 and 2026.
- (7) Includes (i) 1,000,161 ordinary shares; and (ii) 948,591 ordinary shares issuable exercise of stock options at exercise prices ranging between NIS 0.23 and NIS 1.73 (equivalent to between \$0.06 and \$0.48) per share. These options expire between 2019 and 2026.

- (8) Includes 136,732 ordinary shares issuable upon exercise of stock options at an exercise price of NIS 1.55 (equivalent to \$0.43) per share. These options expire in 2026.
- (9) Includes 624,631 ordinary shares issuable upon exercise of stock options at exercise prices ranging between NIS 0.48 and NIS 2.19 (equivalent to between \$0.13 and \$0.61) per share. These options expire between 2019 and 2026.
- (10) Includes 91,419 ordinary shares issuable upon exercise of stock options at an exercise price of NIS 1.55 (equivalent to \$0.43) per share. These options expire in 2026.
- (11) Includes (i) 14,838,891 ordinary shares; (ii) 584,599 ordinary shares issuable upon exercise of Warrants (Series 4) at an exercise price of NIS 1.745 (equivalent to \$0.48) per share. The warrants expire on May 4, 2019; and (iii) 91,667 ordinary shares issuable upon exercise of stock options at exercise prices ranging between NIS 1.39 and NIS 1.79 (equivalent to between \$0.39 and \$0.50) per share. These options expire between 2021 and 2022.
- (12) Includes 380,417 ordinary shares issuable upon exercise of stock options at exercise prices ranging between NIS 1.39 and NIS 1.58 (equivalent to between \$0.39 and \$0.44) per share. These options expire between 2021 and 2024.
- (13) Mr. Kolber is a partner in Viola Growth, which is an affiliate of Viola, one of our major shareholders (See Item 7A under “Security Ownership of Certain Beneficial Owners and Management”).
- (14) Mr. Totah is a partner in Viola Growth, which is an affiliate of Viola, one of our major shareholders (See Item 7A under “Security Ownership of Certain Beneficial Owners and Management”).
- (15) Mr. Cleary is a Vice President of Corporate Development for Medtronic plc, which is an affiliate of MS Pace, one of our major shareholders (See Item 7A under “Security Ownership of Certain Beneficial Owners and Management”).
- (16) Includes 82,500 ordinary shares issuable upon exercise of stock options at an exercise price ranging between NIS 1.29 and NIS 1.48 (equivalent to between \$0.36 and \$0.41) per share. These options expire between June 2021 and June 2022.
- (17) Includes 82,500 ordinary shares issuable upon exercise of stock options at an exercise price ranging between NIS 1.29 and NIS 1.48 (equivalent to between \$0.35 and \$0.41) per share. These options expire between June 2021 and June 2022.
- (18) Includes (i) 46,751,793 ordinary shares; (ii) 1,326,474 ordinary shares issuable upon the exercise of outstanding warrants, exercisable at an exercise price of NIS 1.745 (equivalent to \$0.48) per share, with the latest expiration date of these warrants being May 4, 2019; and (iii) employee stock options to purchase an aggregate of 6,887,698 ordinary shares at a weighted average exercise price of approximately NIS 1.37 (equivalent to approximately \$0.38) per share, with the latest expiration date of these options being January 20, 2026.

## **Equity Incentive Plans**

### *Our Equity Incentive Plans*

In February 2007, we adopted the 2007 Israeli Share Option Plan, or the 2007 Option Plan, under which stock options may be granted to employees employed by us or by our affiliates, to permit our Israeli employees to benefit from tax advantages that became available at that time under Section 102 of the Israeli Tax Ordinance. The 2007 Option Plan had a term of 10 years and expired in February 2017, although we still have outstanding options under the 2007 Option Plan.

In February 2007, we also adopted the 2007 Equity Incentive Plan, or the 2007 Incentive Plan, under which stock options may be granted to employees, officers, directors and consultants of our Company and our subsidiaries that are non-Israeli residents. The 2007 Incentive Plan had a term of 10 years and expired in February 2017, although we still have outstanding options under the 2007 Incentive Plan.

In January 2016, we adopted the Israeli Equity Incentive Plan for Israeli directors, officers, employees and consultants, or the 2016 Israeli Plan, and the 2016 U.S. Equity Incentive Plan for non-Israeli directors, officers, employees and consultants, or the 2016 Non-Israeli Plan. We refer to these two plans together as the 2016 Plans. Under such plans, we may grant stock options, RSUs and other equity-based awards to employees, officers, directors and consultants of our Company and our subsidiaries. The 2016 Plans have a term of ten years and will terminate in January 2026.

Each of the aforesaid equity incentive plans, to which we refer together as the Equity Plans, is administered by our Board of Directors (although our Board of Directors may delegate such authority to any committee thereof). Subject to the Equity Plans and applicable law, our Board of Directors has the authority to make all determinations deemed necessary or advisable for the administration of such plans, including to whom equity awards may be granted, the time and the extent to which these awards may be exercised, the exercise or purchase price of shares covered by each option or other award, the type of awards and how to interpret such plans. Among others, the Board has the authority to provide for, or, where applicable, recommend for approval by the Board of Directors, accelerated vesting of the ordinary shares subject to outstanding awards. *See also Item 6.B – “Change of Control Arrangements.”*

As of March 17, 2019, 13,709,941 ordinary shares remain available for grant of awards under the Equity Plans.

#### Grants in 2018

In 2018, we granted under the Equity Plans (i) options exercisable into up to 3,016,330 ordinary shares (compared with options exercisable into up to 3,742,218 ordinary shares that we granted in 2017); and (ii) up to 295,726 ordinary shares issuable upon the vesting of performance-based RSUs (compared with up to 362,858 ordinary shares issuable upon the vesting of performance-based RSUs that were granted during 2017).

#### Total Outstanding Options and RSUs

The following table sets forth, as of December 31, 2018, the number of options outstanding under our Equity Plans and their respective exercise prices and expiration dates:

	Number of Outstanding Options	Range of exercise prices	Weighted average remaining contractual life (in years)
	2,035,400	\$0.06 - \$0.13	0.23
	803,581	\$0.21 - \$0.29	0.09
	19,219,084	\$0.31 - \$0.39	6.09
	9,349,398	\$0.40 - \$0.55	4.98
	953,330	\$0.56 - \$0.70	2.82
<b>Total: (*) (**)</b>	<b>32,360,793</b>		<b>6.15</b>

(\*) Includes 10,114,392 options that are vested and exercisable as of December 31, 2018.

(\*\*) Includes 16,699,449 performance-based options, at exercise prices that range between of NIS 1.17 and NIS 1.40 (equivalent to between \$0.32 and \$0.39), which performance criteria is that they will vest in December 2020 if the price of our ordinary shares is, at such time, at least NIS 4.24 per share (equivalent to \$1.18), or 50% of such options will vest if the price of our ordinary shares is, at such time, at least NIS 1.70 per share (equivalent to \$0.47). In case that, on the applicable measurement date, the price of our ordinary shares is within the range between these two vesting-trigger share prices, the relative quantity of the options will vest.

The following table sets forth, as of December 31, 2018, the number of RSUs outstanding under our Equity Plans and their respective weighted average grant date fair value:

RSUs	Number	Weighted average grant date fair value
Outstanding at beginning of the year	3,242,632	\$ 0.16
Granted	295,726	\$ 0.12
Vested	—	—
Forfeited	(96,938)	\$ 0.17
<b>Outstanding at end of the year (*)</b>	<b>3,441,420</b>	<b>\$ 0.16</b>

(\*) All of the RSUs are performance-based RSUs, which performance criteria is that they will vest in December 2020 if the price of our ordinary shares is, at such time, at least NIS 4.24 per share (equivalent to \$1.18), or 50% of such options will vest if the price of our ordinary shares is, at such time, at least NIS 1.70 per share (equivalent to \$0.47). In case that, on the applicable measurement date, the price of our ordinary shares is within the range between these two vesting-trigger share prices, the relative quantity of the options will vest. Out of these performance-based RSUs, 1,741,344 RSUs which were granted to one employee and two consultants (of which 1,790,376 RSUs were granted in March 2016 to our President and Chief Executive Officer) require the payment of an exercise price of NIS 0.30 per share (equivalent to \$0.08).

For additional details and a discussion of the accounting method and assumptions used in valuation of such options and RSUs, see Note 15 to our audited consolidated financial statements included elsewhere in this annual report.

#### Grants Since January 1, 2019

In January 2019, our Board of Directors approved the grant of (i) options exercisable into 1,968,954 ordinary shares at exercise price ranging between NIS 1.30 and NIS 1.43 (equivalent to between \$0.36 and \$ 0.40) per share, which expire between 2024 and 2026; and (ii) 339,495 performance-based RSUs, to employees of the Company and its U.S. subsidiary. All said RSUs are without an exercise price.

### ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

#### A. MAJOR SHAREHOLDERS

##### Security Ownership of Certain Beneficial Owners and Management

The following table sets forth certain information regarding the beneficial ownership by all shareholders who, to our knowledge, own beneficially more than 5% of our ordinary shares (to whom we sometime refer in this annual report as our major shareholders) as of March 17, 2019:

	Number of Ordinary Shares Beneficially Owned (1)	Percentage of Outstanding Ordinary Shares (2)
Viola	106,005,372(3)	28.84%
MS Pace	41,154,813(4)	12.29%
Giora Yaron, PhD	30,844,425(5)	9.21%
Yelin Lapidot	25,660,532(6)	7.69%
Migdal	22,031,666(7)	6.58%
Meitav Dash	18,138,115(8)	5.43%

- (1) Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Ordinary shares relating to convertible securities (such as warrants and options) currently exercisable or exercisable within 60 days of the date of this table are deemed outstanding for computing the percentage of the person holding such securities but are not deemed outstanding for computing the percentage of any other person. Except as indicated by footnote, and subject to community property laws where applicable, the persons named in the table above have sole voting and investment power with respect to all shares shown as beneficially owned by them.
- (2) The percentages shown are based on 333,902,421 shares issued and outstanding as of March 17, 2019. This figure of outstanding ordinary shares excludes (i) 39,876,606 ordinary shares issuable upon the exercise of outstanding warrants, exercisable at an exercise price of NIS 1.745 (equivalent to \$0.48) per share, with the latest expiration date of these warrants being May 4, 2019; (ii) 1,197,132 ordinary shares issuable upon the exercise of outstanding warrants issued to a bank, exercisable at an exercise price of between NIS1.30 and NIS 1.36 (equivalent to between \$0.36 and \$0.38) per share, with the latest expiration date of these warrants being March 28, 2023; (iii) 3,441,420 ordinary shares issuable upon the vesting of RSUs; and (iv) employee stock options to purchase an aggregate of 32,241,064 ordinary shares at a weighted average exercise price of approximately NIS 1.37 (equivalent to \$0.38) per share, with the latest expiration date of these options being January 20, 2026 (of which, options to purchase 10,053,491 of our ordinary shares were exercisable as of March 17, 2019).
- (3) The following is based on information provided to the Company by Viola Growth II GP Ltd., a Cayman Islands company. The number of ordinary shares reported in the table consists of (i) 72,346,918 ordinary shares held by Viola Growth 2 A.V. Limited Partnership, or Viola, an Israeli limited partnership; (ii) 33,438,454 ordinary shares issuable upon exercise of the Viola Warrants held by Viola, at an exercise price of NIS 1.745 (equivalent to \$0.48) per share. The warrants expire on May 4, 2019; and (iii) 220,000 ordinary shares issuable upon exercise of stock options held by Viola Growth Management Fund 2 Ltd., or Viola 2, an Israeli company, at an exercise price of NIS 1.54 (equivalent to \$0.41) per share. The general partner of Viola is Viola Growth II Limited Partnership, a Cayman Island limited partnership. The general partner of Viola Growth II Limited Partnership is Viola Growth II GP Ltd., a Cayman Islands company, which is wholly owned by Viola 2. Messrs. Shlomo Dovrat, Harel Beit-On and Avi Zeevi, all of whom are Israeli citizens, hold indirect interests in, and are the controlling shareholders of, Viola 2 and, consequently, may be deemed to be the beneficial owners of the ordinary shares held by Viola and Viola 2. However, each of Messrs. Dovrat, Beit-On and Zeevi disclaims beneficial ownership of all of the foregoing shares, except to the extent of their respective pecuniary interest therein. The business address of Viola is Ackerstein Towers, Building D, 12 Abba Eban Avenue, Herzeliya 4672530, Israel.

- (4) The following is based on information provided to the Company by MS Pace LP, or MS Pace, a Delaware limited partnership. The general partner of MS Pace is MS Pace Management, LLC, which is 51% held by an affiliate of Medtronic International Technology, Inc., or Medtronic, and the remaining 49% interest therein is held by Sightline MS GP, LLC, a third party unrelated to Medtronic. Medtronic also holds 20% of the limited partnership interests in MS Pace. Medtronic is an indirect wholly owned subsidiary of Medtronic plc, an Irish corporation whose shares are traded on the NYSE. The number of ordinary shares reported in the table consists of (i) 40,307,413 ordinary shares held by MS Pace and (ii) 847,400 ordinary shares issuable upon exercise of Warrants (Series 4) held by Medtronic, which warrants are to be transferred to MS Pace. These warrants are exercisable at an exercise price of NIS 1.745 (equivalent to \$0.48) per share and expire on May 4, 2019. The business address of MS Pace is 8500 Normandale Lake Boulevard, Suite 1070, Bloomington, Minnesota 55437.
- (5) Dr. Yaron is the Chairman of our Board of Directors. Includes (i) 29,722,133 ordinary shares; (ii) 741,875 ordinary shares issuable upon exercise of Warrants (Series 4) at an exercise price of NIS 1.745 (equivalent to \$0.48) per share. The warrants expire on May 4, 2019; and (iii) 380,417 ordinary shares issuable upon exercise of stock options at exercise prices ranging between NIS 1.14 and NIS 1.79 (equivalent to between \$0.32 and \$0.50) per share. These options expire between 2021 and 2024. Some of these securities are held through a company wholly owned by Dr. Yaron. The business address of Dr. Yaron is c/o Itamar Medical Ltd., 9 Halamish Street, Caesarea 3088900, Israel.
- (6) The following is based on information provided to the Company by Yelin Lapidot Mutual Funds Management Ltd., or Yelin Lapidot. Yelin Lapidot is a wholly-owned subsidiary of Yelin Lapidot Holdings Management Ltd., or Yelin Lapidot Holdings. The number of ordinary shares reported in the table consists of 25,660,532 ordinary shares held by Yelin Lapidot. Yelin Lapidot operates under independent management and makes its own independent voting and investment decisions. Messrs. Dov Yelin and Yair Lapidot, who are the principal shareholders and directors of Yelin Lapidot Holdings, may be deemed to be the beneficial owners of the shares held by Yelin Lapidot. Consequently, each of Yelin Lapidot and Messrs. Yelin and Lapidot disclaims beneficial ownership of all of the foregoing shares except to the extent of their respective pecuniary interest therein. The business address of Yelin Lapidot is 50 Dizengoff St., Dizengoff Center, Gate 3, Top Tower, 13th floor, Tel Aviv 6433222, Israel.
- (7) The following is based on information provided to the Company by Migdal Insurance & Financial Holdings Ltd, or Migdal. The number of ordinary shares reported in the table consists of (i) 20,911,679 ordinary shares held by Migdal; and (ii) 1,119,987 ordinary shares issuable upon exercise of Warrants (Series 4) held by Migdal, at an exercise price of NIS 1.745 (equivalent to \$0.48) per share. The warrants expire on May 4, 2019. The ordinary shares shown as beneficially owned by Migdal consist of shares held for members of the public through, among others, provident funds, mutual funds, pension funds and insurance policies, which are managed by subsidiaries of Migdal, each of which subsidiaries operates under independent management and makes independent voting and investment decisions. Consequently, Migdal disclaims beneficial ownership of all of the foregoing shares except to the extent of its pecuniary interest therein. The business address of Migdal is 4 Efal Street; P.O. Box 3063; Petah Tikva 4951104, Israel.
- (8) The following is based on information provided to the Company by Meitav Dash Investments Ltd., or Meitav Dash. The number of ordinary shares reported in the table consists of (i) 18,109,998 ordinary shares held by Meitav Dash; and (ii) 28,117 ordinary shares issuable upon exercise of Warrants (Series 4) held by Meitav Dash, at an exercise price of NIS 1.745 (equivalent to \$0.48) per share. The warrants expire on May 4, 2019. The ordinary shares shown as beneficially owned by Meitav Dash (i) exclude the ordinary shares underlying the ADSs issuable to funds affiliated with Meitav Dash as part of the 2019 private placement (*see Item 5.B "Liquidity and Capital Resources – Principal Financing Activities – 2019 Private Placement"*) and (ii) consist of shares held for members of the public through, among others, provident funds, mutual funds, pension funds and insurance policies, which are managed by various direct or indirect, majority or wholly-owned subsidiaries of Meitav Dash, each of which subsidiaries operates under independent management and makes independent voting and investment decisions. Consequently, Meitav Dash disclaims beneficial ownership of all of the foregoing shares except to the extent of its pecuniary interest therein. The business address of Meitav Dash is 30 Derekh Sheshet HaYamim, Bnei Brak 5120261, Israel.

To our knowledge, (i) we are not directly or indirectly owned or controlled by another corporation, by any foreign government or by any other natural or legal person severally or jointly, except as disclosed in the above table regarding our major shareholders, and (ii) there are no arrangements which would result in our change in control at a subsequent date.

## Significant Changes in the Ownership of Major Shareholders

During the past three years, the significant changes in the percentage ownership of our major shareholders were, to our knowledge, as follows:

- On January 9, 2019, Phoenix became the beneficial owner of more than 5% of our outstanding ordinary shares. As a result of the issuance of shares to More Trust on February 3, 2019, Phoenix owns less than 5% of our outstanding ordinary shares.
- On July 5, 2018, Meitav Dash became the beneficial owner of more than 5% of our outstanding ordinary shares as shown in the table above.
- On May 27, 2018, we completed a private placement and issued to the investors, which included several of our major shareholders (namely, Viola, Medtronic, Dr. Yaron, Yelin Lapidot and Meitav Dash), a total of 22,013,893 ordinary shares (representing as of such date approximately 7.7% of our issued and outstanding shares on a post-issuance basis). *For additional details, see Item 5.B “Liquidity and Capital Resources – Principal Financing Activities.”*
- On February 1, 2016, in connection with the issuances of our ordinary shares under the Viola Transaction on November 5, 2015 and February 1, 2016, Viola became the beneficial owner of approximately 25.5% of our issued and outstanding shares as of February 1, 2016.

## Major Shareholders Voting Rights

Our major shareholders do not have different voting rights.

## Record Holders

Based on our records and a review of the information provided to us by the TASE, as of April 1, 2019, there were 607 holders of record of our ordinary shares, of which 24 record holders, holding approximately 6.2% of our outstanding ordinary shares, had registered addresses in the United States. Based on review of the information provided to us by The Bank of New York Mellon, the depository for our ADSs, as of April 8, 2019, we had four registered ADS holders of record with addresses in the United States, holding in total ADSs that represent approximately 7.5% of our outstanding ordinary shares. These numbers are not representative of the number of beneficial holders of our ordinary shares and ADSs nor is it representative of where such beneficial holders reside primarily because many of these ordinary shares and ADSs may be held of record by brokers or other nominees.

## B. RELATED PARTY TRANSACTIONS

### Financings

See Item 5.B “Operating and Financial Review and Prospects– Liquidity and Capital Resources – Principal Financing Activities” with respect to certain investments and loans made by, or repaid to, our major shareholders and members of our Board of Directors.

### Directors and Officers Compensation

See Item 6.B “Directors, Senior Management and Employees - Compensation” and 6.C “Directors, Senior Management and Employees – Board Practices” with respect to compensation payable, and insurance and indemnification granted, to our senior management and directors.

### Medtronic Co-Marketing Agreement

In March 2014, we entered into a co-marketing agreement with Medtronic, Inc., whereby Medtronic was granted exclusive rights to co-market our WatchPAT product to electrophysiologists (physicians specializing in cardiology arrhythmias) in the United States and undertook to make specified investments in marketing of the product as well as meet minimum sales quotas. In April 2015, as part of several amendments to the marketing agreement, the aforesaid obligation to make specified investments and meet minimum sales quotas was canceled. Pursuant to this agreement, Medtronic markets WatchPAT as part of a comprehensive solution offered by Medtronic to physicians. Since June 30, 2017, the term of this agreement (as amended) is automatically renewed for 30 day intervals, unless earlier terminated by either party upon 14 days prior notice.



Medtronic is entitled to a portion of the net sales made under this agreement. However, the total net sales under this agreement (and, consequently, the consideration payable to Medtronic) have been immaterial to us in the past three years (net sales under this agreement were approximately \$0.21 million in 2018, \$0.31 million in 2017 and \$0.18 million in 2016).

**ITEM 8. FINANCIAL INFORMATION**

**A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION**

**Financial Statements**

See the consolidated financial statements, including the notes thereto, included in *Item 18 “Financial Statements”* of this annual report.

**Export Sales**

In the year ended December 31, 2018, the amount of our export sales (i.e., sales outside of Israel) was approximately \$23.9 million, which represents 98.8% of our total sales.

**Legal Proceedings**

We are currently not, and have not been in the recent past, a party to any legal proceedings which may have or have had in the recent past significant effects on our financial position or profitability. However, we have been in the past, and may be from time to time in the future, named as a defendant in certain routine litigation incidental to our business.

**Dividend Distribution Policy**

We have never declared or paid on our ordinary shares and do not intend to pay cash dividends on our ordinary shares or ADSs in the foreseeable future. Our earnings and other cash resources will be used to continue the development and expansion of our business. Any future dividend policy will be determined by our Board of Directors and will be based upon conditions then existing, including our results of operations, financial condition, current and anticipated cash needs, contractual restrictions and other conditions.

According to the Companies Law, a company may distribute dividends only out of its “profits,” as such term is defined in the Companies Law, as of the end of the most recent fiscal year or as accrued over a period of two years, whichever is higher. Our Board of Directors is authorized to declare dividends, provided that there is no reasonable concern that payment of the dividend will prevent us from satisfying our existing and foreseeable obligations as they become due. Notwithstanding the foregoing, dividends may be paid with the approval of a court, provided that there is no reasonable concern that payment of the dividend will prevent us from satisfying our existing and foreseeable obligations as they become due. Profits, for purposes of the Companies Law, means the greater of retained earnings or earnings accumulated during the preceding two years, after deduction of previous distributions that were not already deducted from the surpluses, as evidenced by financial statements prepared no more than six months prior to the date of distribution.

**B. SIGNIFICANT CHANGES**

Except as otherwise disclosed in this annual report, no significant change has occurred since December 31, 2018.

**ITEM 9. THE OFFER AND LISTING**

**A. OFFER AND LISTING DETAILS**

Our ordinary shares have been trading on the TASE under the symbol “ITMR” since March 13, 2007. Our ADSs have been trading on the Nasdaq Capital Market under the symbol “ITMR” since February 27, 2019.

**B. PLAN OF DISTRIBUTION**

Not applicable.

**C. MARKETS**

Our ordinary shares are listed and traded on the TASE, and our ADSs, each representing 30 ordinary shares and evidenced by an American Depositary Receipt, or ADR, are traded on the Nasdaq Capital Market under the symbol "ITMR". The ADRs were issued pursuant to a Depositary Agreement entered into with The Bank of New York Mellon.

**D. SELLING SHAREHOLDERS**

Not applicable.

**E. DILUTION**

Not applicable.

**F. EXPENSE OF THE ISSUE**

Not applicable.

**ITEM 10. ADDITIONAL INFORMATION**

**A. SHARE CAPITAL**

Not applicable.

**B. MEMORANDUM AND ARTICLES OF ASSOCIATION**

*Set out below is a description of certain provisions of our memorandum of association and articles of association and of the Companies Law (as currently in effect) related to such provisions, unless otherwise specified. This description is only a summary and does not purport to be complete and is qualified by reference to the full text of the memorandum and articles, which are incorporated by reference as exhibits to this annual report.*

**Purposes and Objects of the Company**

We are a public company registered under the Companies Law as Itamar Medical Ltd. Our registration number with the Israeli Registrar of Companies is 51-243421-8. Pursuant to our memorandum and articles of association, our objectives are to engage in any lawful activity as determined from time to time by our Board of Directors.

**The Powers of the Directors**

Under the provisions of the Companies Law and our articles of association, a director generally cannot participate in a meeting nor vote on a proposal, arrangement or contract in which he or she is personally interested. In addition, our directors generally cannot vote compensation to themselves or any members of their body without the approval of our Compensation Committee and our shareholders at a general meeting. See *Item 6.C "Directors, Senior Management and Employees – Board Practices – Approval of Related Party Transactions Under Israeli Law."*

The authority of our directors to enter into borrowing arrangements on our behalf is not limited, except in the same manner as any other transaction by us.

Under our articles of association, retirement of directors from office is not subject to any age limitation and our directors are not required to own shares in our Company in order to qualify to serve as directors.

**Rights Attached to Shares**

Our authorized share capital consists of 750,000,000 ordinary shares of a nominal value of NIS 0.01 each. The shares do not entitle their holders to preemptive rights.

**Dividend rights.** Subject to any preferential, deferred or other rights or restrictions attached to any special class of shares with regard to dividends, the profits of the Company available for dividend and resolved to be distributed shall be applied in payment of dividends upon the shares of the Company in the same manner with respect to all of the shares granting a right to receive dividends on the date that resolution is adopted (or on later date, as determined by the Board of Directors). Our Board of Directors may declare dividends only out of profits legally available for distribution, in accordance with the provisions of the Companies Law. In this respect, see *Item 8.A "Financial Information – Consolidated and Other Financial Information – Dividend Distribution Policy."*

Our Board of Directors is entitled to invest or utilize any unclaimed amount of dividend in any manner to our benefit until it is claimed. We are not obligated to pay interest or linkage on an unclaimed dividend.

**Voting rights.** Holders of ordinary shares have one vote for each ordinary share held on all matters submitted to a vote of shareholders. Such voting rights may be affected by the grant of any special voting rights to the holders of a class of shares with preferential rights that may be authorized in the future.

**Rights to share in profits.** Our shareholders have the right to share in our profits distributed as a dividend and any other permitted distribution. See this *Item 10.B "Additional Information – Memorandum and Articles of Association – Rights Attached to Shares – Dividend Rights"* above.

**Rights to share in surplus in the event of liquidation.** In the event of our liquidation, after satisfaction of liabilities to creditors, our assets will be distributed to the holders of ordinary shares in proportion to the nominal value of their holdings. This right may be affected by the grant of preferential dividend or distribution rights to the holders of a class of shares with preferential rights that may be authorized in the future.

**Liability to capital calls by the Company.** Under our memorandum and articles of association as well as the Companies Law, the liability of our shareholders is limited to the unpaid amount of the purchase price (i.e., the par value of the shares and the premium thereon, if any) that such shareholder (or its predecessor) initially undertook to pay for the shares issued thereto.

**Limitations on any existing or prospective major shareholder.** See *Item 6.C "Directors, Senior Management and Employees – Board Practices – Approval of Related Party Transactions Under Israeli Law."*

### **Changing Rights Attached to Shares**

The rights attached to any class of shares (unless otherwise provided by the terms of issuance of the shares of that class) may be varied with the consent in writing of the holders of all the issued shares of that class, or with the sanction of a vote at a meeting of the shareholders passed at a separate meeting of the holders of the shares of the class by a majority of the voting rights of such class represented at the meeting in person or by proxy and voting thereon.

Under our articles of association, unless otherwise provided by the conditions of issuance, the enlargement of an existing class of shares, or the issuance of additional shares thereof, shall not be deemed to modify or abrogate the rights attached to the previously issued shares of such class or of any other class.

### **Shareholders Meetings**

The Board of Directors must convene an annual meeting of shareholders at least once every calendar year, within fifteen months of the last annual meeting. A special meeting of shareholders may be convened by the Board of Directors, as it decides.

The Companies Law generally allows shareholders (1) who hold at least 1% of the outstanding shares of a public company to submit a proposal for inclusion on the agenda of a general meeting of the company's shareholders and (2) who hold at least 5% of the outstanding ordinary shares of a public company to convene a special meeting of shareholders upon request in accordance with the Companies Law. Our articles of association contain procedural guidelines and disclosure items with respect to the submission of shareholder proposals for shareholders meetings.

In accordance with our articles of association, shareholders meetings require notice in the manner prescribed by the Companies Law. Under the Companies Law, shareholders meetings generally require prior notice of not less than 21 days or, with respect to certain matters, such as election of directors and affiliated party transactions, not less than 35 days.

The quorum required at any meeting of shareholders consists of at least two shareholders present in person or represented by proxy, within half an hour from the time appointed for holding the meeting, who hold or represent, in the aggregate, at least 33 and 1/3% of the total voting rights in the Company. A meeting adjourned for lack of a quorum generally is adjourned to the same day in the following week at the same time and place or any time and place as the directors designate in a notice to the shareholders. If, at such adjourned meeting, a quorum is not present within half an hour from the time appointed for holding the meeting, any two shareholders present in person or by proxy who hold or represent, in the aggregate, at least 10% of the outstanding share capital of the Company, shall constitute a quorum.

Under our articles of association, all shareholder resolutions require approval of no less than a majority of the voting rights represented at the meeting in person or by proxy and voting thereon, except that (1) amendments to our articles of association (including any change to provisions relating to the composition of our Board of Directors) and (2) removal of directors (who are not external directors or “independent directors” as such term is defined by the Companies Law) by our shareholders, require a special majority of 75% or more of the voting power represented at the meeting in person or by proxy and voting thereon.

Pursuant to our articles of association, our directors (except outside directors) are elected at our annual general meeting of shareholders by a vote of the holders of a majority of the voting power represented and voting at such meeting. For additional details regarding the election of our directors, see *Item 6.C “Directors, Senior Management and Employees – Board Practices – Election of Directors; Board Meetings.”*

#### **Limitations on the Rights to Own Securities in Our Company**

Neither our memorandum of association or our articles of association nor the laws of the State of Israel restrict in any way the ownership or voting of shares by non-residents, except with respect to subjects of countries which are in a state of war with Israel. See also this *Item 10.B “Additional Information – Memorandum and Articles of Association – Provisions Restricting Change in Control of Our Company”* below.

#### **Duties of Shareholders**

*Disclosure by Controlling Shareholders.* Under the Companies Law, the disclosure requirements that apply to an office holder also apply to a controlling shareholder of a public company. A controlling shareholder is a shareholder who has the ability to direct the activities of a company, including a shareholder that owns 25% or more of the voting rights if no other shareholder owns more than 50% of the voting rights, but excluding a shareholder whose power derives solely from his or her position on the Board of Directors or any other position with the company. We consider Viola to be a controlling shareholder of our Company under the Companies Law.

*Approval of Certain Transactions.* Extraordinary transactions with a controlling shareholder or in which a controlling shareholder has a personal interest, and the engagement of a controlling shareholder as an office holder or employee (including compensation therefor), generally require the approval of the audit committee (or compensation committee with respect to engagement as an office holder or employee), the Board of Directors and the shareholders, in that order. The shareholder approval must include at least a majority of the shares of non-interested shareholders voted on the matter. However, the transaction can be approved by shareholders without this special approval if the total shares of non-interested shareholders that voted against the transaction do not represent more than 2% of the voting rights in the company. In addition, any such extraordinary transaction whose term is longer than three years may require further shareholder approval every three years, unless, where permissible under the Companies Law, the audit committee approves that a longer term is reasonable under the circumstances. With respect to approval of compensation to directors and executive officers, see also *Item 6.C “Directors, Senior Management and Employees – Board Practices – Approval of Related Party Transactions Under Israeli Law.”*

*General Duties of Shareholders.* In addition, under the Companies Law, each shareholder has a duty to act in good faith toward the company and other shareholders and to refrain from abusing his or her power in the company, such as in shareholder votes. In addition, specified shareholders have a duty of fairness toward the company. These shareholders include any controlling shareholder, any shareholder who knows that it possesses the power to determine the outcome of a shareholder vote and any shareholder who, pursuant to the provisions of the articles of association, has the power to appoint or prevent the appointment of an office holder or any other power with respect to the company. However, the Companies Law does not define the substance of this duty of fairness.

#### **Provisions Restricting Change in Control of Our Company**

Except for requiring a special majority voting in order to amend our articles of association, there are no specific provisions of our memorandum, articles of association or other constituent documents that would have an effect of delaying, deferring or preventing a change in control of Itamar Medical or that would operate only with respect to a merger, acquisition or corporate restructuring involving us (or any of our subsidiaries). However, as described below, certain provisions of the Companies Law may have such effect.

The Companies Law includes provisions that allow a merger transaction and requires that each company that is a party to the merger have the transaction approved by its Board of Directors and a vote of the majority of its shares. For purposes of the shareholder vote of each party, unless a court rules otherwise, the merger will not be deemed approved if shares representing a majority of the voting power present at the shareholders meeting and which are not held by the other party to the merger (or by any person who holds 25% or more of the voting power or the right to appoint 25% or more of the directors of the other party) vote against the merger. Upon the request of a creditor of either party to the proposed merger, the court may delay or prevent the merger if it concludes that there exists a reasonable concern that as a result of the merger the surviving company will be unable to satisfy the obligations of any of the parties to the merger. In addition, a merger may not be completed unless at least (1) 50 days have passed from the time that the requisite proposals for approval of the merger were filed with the Israeli Registrar of Companies by each merging company and (2) 30 days have passed since the merger was approved by the shareholders of each merging company.

The Companies Law also provides that an acquisition of shares in a public company must be made by means of a “special” tender offer if as a result of the acquisition (1) the purchaser would become a 25% or greater shareholder of the company, unless there is already another 25% or greater shareholder of the company or (2) the purchaser would become a 45% or greater shareholder of the company, unless there is already a 45% or greater shareholder of the company. These requirements do not apply if, in general, the acquisition (1) was made in a private placement that received shareholder approval, (2) was from a 25% or greater shareholder of the company which resulted in the acquirer becoming a 25% or greater shareholder of the company, or (3) was from a 45% or greater shareholder of the company which resulted in the acquirer becoming a 45% or greater shareholder of the company. A “special” tender offer must be extended to all shareholders, but the offeror is not required to purchase more than 5% of the company’s outstanding shares, regardless of how many shares are tendered by shareholders. In general, the tender offer may be consummated only if (1) at least 5% of the company’s outstanding shares will be acquired by the offeror and (2) the number of shares tendered in the offer exceeds the number of shares whose holders objected to the offer.

If, as a result of an acquisition of shares, the acquirer will hold more than 90% of a company’s outstanding shares, the acquisition must be made by means of a tender offer for all of the outstanding shares. In general, if less than 5% of the outstanding shares are not tendered in the tender offer and more than half of the offerees who have no personal interest in the offer tendered their shares, all the shares that the acquirer offered to purchase will be transferred to it. Shareholders may request appraisal rights in connection with a full tender offer for a period of six months following the consummation of the tender offer, but the acquirer is entitled to stipulate that tendering shareholders will forfeit such appraisal rights.

Lastly, Israeli tax law treats some acquisitions, such as stock-for-stock exchanges between an Israeli company and a foreign company, less favorably than U.S. tax laws. For example, Israeli tax law may, under certain circumstances, subject a shareholder who exchanges his ordinary shares for shares in another corporation to taxation prior to the sale of the shares received in such stock-for-stock swap.

## **Changes in Our Capital**

Changes in our capital, such as increase of authorized share capital or creation of another class of shares, are subject to the approval of the shareholders by a simple majority. *See Item 10.B “Additional Information – Memorandum and Articles of Association –Shareholders Meetings”* above.

## **Private Placements**

Under the Companies Law, if (i) as a result of a private placement a person would become a controlling shareholder (as defined under the Companies Law) or (ii) a private placement will entitle investors to receive 20% or more of the voting rights of a company as calculated before the private placement, and all or part of the private placement consideration is not in cash or in public traded securities or is not in market terms and if as a result of the private placement the holdings of a substantial shareholder shall increase or as a result of it a person shall become a substantial shareholder, then in either case, the issuance of shares must be approved by the board of directors and by the shareholders of the company. A “substantial shareholder” is defined as a shareholder who holds five percent or more of the company’s outstanding share capital, assuming the exercise of all of the securities convertible into shares held by that person. In order for the private placement to be considered on “market terms,” the board of directors has to determine, on the base of detailed explanation, that the private placement is on market terms, unless proven otherwise.

## **C. MATERIAL CONTRACTS**

### **Agreement with Kaiser**

On August 16, 2007, Itamar Medical, Inc., our wholly owned U.S. Subsidiary, entered into a master products and services agreement with Kaiser Foundation Health Plan, Inc., or Kaiser, one of the largest medical insurers and hospital systems in the U.S. (as amended, the “Kaiser Framework Agreement”).

The Kaiser Framework Agreement is essentially a framework agreement that allows Kaiser to place purchase orders for our products from time to time, with no minimum purchase requirements, under the terms of the agreement. Under the agreement, we undertook to supply Kaiser and its affiliates with our WatchPAT and Endo PAT products and ancillary accessories as well as offer maintenance services for the products supplied by us under the agreement. The agreement also contains provisions regarding (1) the pricing terms of the products and services offered by us to Kaiser, (2) payment terms, (3) the warranty we provide with respect to the supply of our products, including in case of product recalls, and (4) our undertaking to indemnify the customer in case that our products infringe upon the intellectual property rights of third parties.

The current term of the Kaiser Framework Agreement is until March 31, 2019 with Kaiser having the right to extend the term of the agreement for two additional one (1) year periods upon notice to us prior to the extension of the current term. However, our U.S. subsidiary has recently finalized a new master products and services agreement with Kaiser (the "New Agreement"), that is intended to replace the Kaiser Framework Agreement. The material terms of the New Agreement are expected to be similar to those set forth in the Kaiser Framework Agreement, except that its term is expected to be until March 2022. Until the New Agreement is executed, and at the request of Kaiser, we agreed to continue to accept purchase orders from Kaiser pursuant to the terms of the Kaiser Framework Agreement.

### **Philips Japan Distribution Agreement**

On February 24, 2014, we entered into a distribution agreement with Philips Respironics GK, a subsidiary of Koninklijke Philips NV (also known as Royal Philips), or Philips Japan (as amended, the "Distribution Agreement").

The Distribution Agreement is essentially a framework agreement that allows Philips Japan to place purchase orders for our products from time to time, with no minimum purchase requirements except to the limited extent described below. Under the agreement, Philips Japan was granted exclusive rights to distribute our WatchPAT products and ancillary accessories in Japan. The agreement contains other customary provisions, including (1) the pricing terms of the products offered by us to Philips Japan, (2) payment terms, (3) the terms of warranty for defective products, and (4) our undertaking to indemnify Philips in case that our products infringe upon the intellectual property rights of third parties. Philips Japan does not have the right to return the products that we deliver them pursuant to the Distribution Agreement.

We may terminate the agreement if, among other things, Philips Japan does not meet certain minimum annual and quarterly purchase requirements of our products specified in the Distribution Agreement (which, commencing with 2016, were adjusted by Philips Japan and us to reflect the prices for our products under the then prevailing local market conditions, including reimbursement levels). It is clarified that, under the agreement, such termination right is our sole remedy if Philips Japan does not meet such minimum purchase requirements. In addition, each of Philips Japan and us may terminate the agreement for convenience by providing 90 days advance notice to the other party.

The Distribution Agreement provided that its initial term will expire (i) on December 31, 2018, or (ii) three (3) years from the date that the MHLW grants reimbursement approval of therapy for patients diagnosed by HSATs (such as our WatchPAT) with AHI (apnea hypopnea index) above 20 (the "MHLW approval"), whichever is earlier. If the MHLW approval were obtained, it would have had the effect of expanding the reimbursement of therapy to patients suffering from moderate, and not only severe OSA. Since the MHLW approval has not been obtained to date, the initial term of the agreement was scheduled to expire on December 31, 2018. However, following a recent amendment to the Distribution Agreement, the term of the agreement was extended and is currently scheduled to expire on December 31, 2021. It should be noted that, as part of such amendment, the Distribution Agreement contemplates the preparation of a business plan to be mutually agreed by the parties, which business plan is expected to include, among other things, the submission of an application to seek the MHLW approval. There is no assurance, however, that, even if such business plan is agreed and implemented by the parties, the submission of such application will result in obtaining the MHLW approval and, if so, when.

Upon termination of the agreement, Philips Japan, which holds the Japanese's regulatory approval for marketing the WatchPAT in Japan, is required to transfer the regulatory approval to us.

### **Agreement with VA**

On October 12, 2011 and March 12, 2014, our U.S. Subsidiary entered into a Solicitation/Contract/Order for Commercial Items agreement with the Department of Veterans Affairs, or VA, one of the largest U.S. hospital and clinics chains (as amended, the "VA Framework Agreement").

The VA Framework Agreement is essentially a framework agreement that allows VA to place purchase orders for our products from time to time, with no minimum purchase requirements, under the terms of the agreement. Under the agreement, we undertook to supply VA and its affiliates with our WatchPAT and Endo PAT products and ancillary accessories as well as offer maintenance services for the products supplied by us under the agreement. The agreement also contains provisions regarding (1) the pricing terms of the products and services offered by us to VA, (2) payment terms, (3) the warranty we provide with respect to the supply of our products, including in case of product recalls, and (4) our undertaking to indemnify VA in case that our products infringe upon the intellectual property rights of third parties.

The current term of the VA Framework Agreement is until June 14, 2023.

#### **2017/2019 Credit Line**

*See the summary under Item 5.B “Operating and Financial Review and Prospects– Liquidity and Capital Resources – Principal Financing Activities – 2017/2019 Credit Line.”*

#### **2018 Private Placement**

*See the summary under Item 5.B “Operating and Financial Review and Prospects– Liquidity and Capital Resources – Principal Financing Activities – 2018 Private Placement.”*

#### **2019 Private Placement**

*See the summary under Item 5.B “Operating and Financial Review and Prospects– Liquidity and Capital Resources – Principal Financing Activities – 2019 Private Placement.”*

#### **D. EXCHANGE CONTROLS**

Israeli law and regulations do not impose any material foreign exchange restrictions on non-Israeli holders of our ordinary shares. There are currently no Israeli currency control restrictions on payments of dividends or other distributions with respect to our ordinary shares or the proceeds from the sale of the shares, except for the obligation of Israeli residents to file reports with the Bank of Israel regarding certain transactions. However, legislation remains in effect pursuant to which currency controls can be imposed by administrative action at any time.

The ownership or voting of our ordinary shares by non-residents of Israel, except with respect to citizens of countries which are in a state of war with Israel, is not restricted in any way by our memorandum of association or articles of association or by the laws of the State of Israel.

#### **E. TAXATION**

*The following is a discussion of Israeli and United States tax consequences material to our shareholders. The discussion is not intended, and should not be construed, as legal or professional tax advice and does not exhaust all possible tax considerations.*

*Holders of our ADSs should consult their own tax advisors as to the United States, Israeli or other tax consequences of the purchase, ownership and disposition of our ADSs, including, in particular, the effect of any foreign, state or local taxes.*

#### **Israeli Tax Considerations**

The following is a summary of the principal tax laws applicable to companies in Israel, with special reference to their effect on us. The following also contains a discussion of the material Israeli tax consequences to purchasers of our ordinary shares or ADSs. This summary does not discuss all the aspects of Israeli tax law that may be relevant to a particular investor in light of his or her personal investment circumstances or to some types of investors subject to special treatment under Israeli law. To the extent that the discussion is based on new tax legislation which has not been subject to judicial or administrative interpretation, we cannot assure you that the views expressed in the discussion will be accepted by the appropriate tax authorities or the courts. The discussion is not intended, and should not be construed, as a legal or professional tax advice and is not exhaustive of all possible tax considerations.

#### *General Corporate Tax Structure*

Most of our production facilities have been granted “Approved Enterprise” and “Benefited Enterprise” status under the Law for the Encouragement of Capital Investments, 1959, or the Investment Law. We are a “Foreign Investors’ Company” as defined by the Investment Law, which means we are entitled to tax benefits for taxable income arising from our Approved or Benefited Enterprise status.

Generally, Israeli companies are subject to corporate tax on taxable income at the rate of 25% for the 2016 tax year, 24% for the 2017 tax year and 23% for the 2018 tax year and thereafter. However, the effective tax rate payable by a company that generates income qualifying for benefits under the Investment Law may be considerably less. Israeli companies are generally subject to capital gains tax at the corporate tax rate.

We are permitted to measure our Israeli taxable income in dollars pursuant to regulations published by the Israeli Minister of Finance, which provide the conditions for doing so. We believe that we meet, and will continue to meet, the necessary conditions and as such, starting with our 2016 tax year, we measure our results for tax purposes based on the U.S. dollar/NIS exchange rate on December 31 of the relevant tax year.

*Tax Benefits under the Law for the Encouragement of Capital Investments, 1959, as amended.*

Most of our production facilities have been granted “Approved Enterprise” and “Benefited Enterprise” status under the Investment Law, including its various amendments. We are a “Foreign Investors’ Company” as defined by the Investment Law, which means we may be entitled to tax benefits for taxable income arising from our Approved or Benefited Enterprise status. Since our incorporation we incurred significant losses and therefore we did not start benefiting from such status. To be eligible for these tax benefits, one must continue to meet certain conditions stipulated in the Investment Law and its regulations and the criteria set out in the specific certificate of approval. The only material condition applicable to us is to meet a minimum threshold (25%) of export sales (i.e., sales outside of Israel). In the event we are considered as having failed to comply with these conditions, in whole or in part, the eligibility for the benefits may be canceled and we may be required to refund the relevant amount, including inflation adjustments and interest. However, since we had accumulated carryforward tax losses of approximately \$111 million as of December 31, 2018, we did not benefit from such tax benefits and do not expect to benefit from such tax benefits in the foreseeable future. Once we utilize all of our accumulated tax losses, we expect to derive tax benefits in Israel relating to our “Approved Enterprise” and “Benefited Enterprise” for which we are eligible.

A company having an Approved Enterprise, like us, that distributes a dividend from income that was tax exempt, will be required in the tax year of the dividend distribution to pay corporate tax on the amount of the dividend distributed (including the company tax required as a result of the distribution) at the corporate tax rate that would have been applicable to it in the year the income was generated if it had not been exempt from tax. Since we have accumulated losses, we did not benefit from such status.

Income from sources other than the “Approved Enterprise” and “Benefited Enterprise” status are taxable at regular corporate tax rates.

See also Note 19 to our audited consolidated financial statements included elsewhere in this annual report.

*Tax Benefits and Grants for Research and Development*

Israeli tax law allows, under specified conditions, a tax deduction for expenditures, including capital expenditures, for the year in which they are incurred. These expenses must relate to scientific research and development projects and must be approved by the relevant Israeli government ministry, determined by the field of research, and the research and development must be conducted for the promotion of the company and carried out by or on behalf of the company seeking such deduction. However, the amount of such deductible expenses shall be reduced by the sum of any funds received through government grants for the financing of such scientific research and development projects. Expenditures not so approved are deductible over a three-year period.

*Tax Benefits under the Law for the Encouragement of Industry (Taxes), 1969*

Under the Law for the Encouragement of Industry (Taxes), 1969, or the Industry Encouragement Law, Industrial Companies (as defined below) are entitled to the following tax benefits, among others:

- deductions over an eight-year period for purchases of know-how and patents;
- deductions over a three-year period of expenses involved with the issuance and listing of shares on a stock market;
- the right to elect, under specified conditions, to file a consolidated tax return with other related Israeli Industrial Companies; and
- accelerated depreciation rates on equipment and buildings.



Eligibility for benefits under the Industry Encouragement Law is not subject to receipt of prior approval from any governmental authority. Under the Industry Encouragement Law, an “Industrial Company” is defined as a company which is an Israeli resident for tax purposes, which at least 90% of the income of which, in any tax year, determined in Israeli currency, exclusive of income from government loans, capital gains, interest and dividends, is derived from an “Industrial Enterprise” owned by it.

An “Industrial Enterprise” is defined as an enterprise whose major activity in a given tax year is industrial production activity. We believe that we currently qualify as an Industrial Company within the definition of the Industry Encouragement Law. No assurance can be given that we will continue to qualify as an Industrial Company or that the benefits described above will be available in the future.

#### *Capital Gains Tax on Sales of our Ordinary Shares*

Israeli law generally imposes a capital gains tax on the sale of any capital assets by residents of Israel, as defined for Israeli tax purposes, and on the sale of assets located in Israel, including shares in Israeli companies, by both residents and non-residents of Israel, unless a specific exemption is available or unless a tax treaty between Israel and the shareholder’s country of residence provides otherwise. The Tax Ordinance distinguishes between real gain and inflationary surplus. The inflationary surplus is a portion of the total capital gain equivalent to the increase of the relevant asset’s purchase price attributable to an increase in the Israeli consumer price index, or a foreign currency exchange rate, between the date of purchase and the date of sale. The real gain is the excess of the total capital gain over the inflationary surplus.

The following discussion refers to the sale of our ordinary shares. However, the same tax treatment would apply to the sale of our ADSs.

#### *Taxation of Israeli Residents*

The tax rate generally applicable to the capital gains derived from the sale of shares, whether listed on a stock market or not, is 25% for Israeli individuals, unless such shareholder is considered a “significant shareholder” at any time during the 12-month period preceding such sale (*i.e.*, such shareholder holds directly or indirectly, including jointly with others, at least 10% of any means of control in the company) in which case the tax rate will be 30%. Israeli companies are subject to the corporate tax rate on capital gains derived from the sale of listed shares. However, different tax rates may apply to dealers in securities and shareholders who acquired their shares prior to an initial public offering.

As of January 1, 2018, shareholders that are individuals who have taxable income that exceeds NIS 641,880 in a tax year (linked to the Israeli CPI each year), will be subject to an additional tax, referred to as Income Surtax, at the rate of 3% on their taxable income for such tax year which is in excess of such threshold. For this purpose taxable income will include taxable capital gains from the sale of our shares and taxable income from dividend distributions.

#### *Taxation of Non-Israeli Residents*

Non-Israeli residents are generally exempt from Israeli capital gains tax on any gains derived from the sale of shares publicly traded on the TASE provided such gains did not derive from a permanent establishment of such shareholders in Israel. If non-Israeli resident shareholders acquired their shares prior to the issuer’s initial public offering, a partial or full exemption may be available under certain requirements. However, non-Israeli corporations will not be entitled to such exemption if Israeli residents (i) have a controlling interest of more than 25% in such non-Israeli corporation, or (ii) are the beneficiaries of or are entitled to 25% or more of the revenues or profits of such non-Israeli corporation, whether directly or indirectly.

In addition, the sale, exchange or disposition of our ordinary shares by a shareholder who is a U.S. resident (for purposes of the U.S.-Israel Tax Treaty), and who holds ordinary shares as a capital asset, is also exempt from Israeli capital gains tax under the U.S.-Israel Tax Treaty unless either (i) the shareholder holds, directly or indirectly, shares representing 10% or more of our voting power during any part of the 12-month period preceding such sale, (ii) the capital gains arising from such sale are attributable to a permanent establishment of the shareholder located in Israel, (iii) the gain is from sale of shares of a real estate association (as defined in the Israeli Land Appreciation Tax Law), or (iv) the U.S. shareholder, being an individual, is present in Israel for a period or periods aggregating 183 days or more during the taxable year in which the sale was made. If the above conditions are not met, the U.S. resident would be subject to Israeli tax, unless exempt under the Israeli domestic law as described above. Under the U.S.-Israel Tax Treaty, the gain would be treated as foreign source income for United States foreign tax credit purposes and such U.S. resident would generally be permitted to claim a credit for such taxes against the United States federal income tax imposed on such sale, exchange or disposition, subject to the limitations under the United States federal income tax laws applicable to foreign tax credits.

### *Taxation of Dividends Paid on our Ordinary Shares*

The following discussion refers to dividends paid on our ordinary shares. However, the same tax treatment would apply to dividends paid on our ADSs.

#### *Taxation of Israeli Residents*

Israeli resident individuals are generally subject to Israeli income tax on the receipt of dividends paid on our ordinary shares, other than bonus shares (share dividends) or stock dividends. The tax rate generally applicable to such dividends is 25% or 30% for an individual shareholder that is considered a significant shareholder at any time during the 12-month period preceding such distribution. Israeli resident companies are generally exempt from income tax from dividends sourced from income produced or accrued in Israel, received directly or indirectly from another company that is liable to Israeli corporate tax. Dividends paid out of profits sourced from ordinary income are subject to withholding tax at the rate of 25% or 30%. Dividends paid from income derived from our Approved and Benefited Enterprises are subject to withholding tax at the rate of 15%. Dividends paid as of January 1, 2014 from income derived from Preferred Enterprise and Preferred Technology Enterprise will be subject to withholding tax at the rate of 20%. Currently we do not have Preferred Enterprise and Preferred Technology Enterprise. We cannot assure you that we will designate the profits that are being distributed in a way that will reduce shareholders' tax liability. All dividend distributions to Israeli resident corporations are not subject to a withholding tax.

For information with respect to the applicability of Income Surcharge on distribution of dividends, please see "Capital Gains Tax on Sales of Our Ordinary Shares" and "Taxation of Israeli Residents" above in this Item 10.

#### *Taxation of Non-Israeli Residents*

Non-residents of Israel, both companies and individuals, are generally subject to Israeli income tax on the receipt of dividends paid on our ordinary shares, at the aforementioned rates applicable to Israeli residents, which tax will be withheld at source, unless a different rate is provided in a treaty between Israel and the shareholder's country of residence. Non-Israeli companies will also generally be subject to Israeli income tax on the receipt of dividends paid on our ordinary shares at the rate of 25%, or 30% for a company that is a significant shareholder at any time during the 12-month period preceding such distribution.

Under the U.S.-Israel Treaty, the maximum Israeli withholding tax on dividends paid by us is 25%. The U.S.-Israel Tax Treaty further provides for a 12.5% Israeli dividend withholding tax rate on dividends paid by an Israeli company to a U.S. corporation owning at least 10% or more of such Israeli company's issued voting power for, in general, the part of the tax year which precedes the date of payment of the dividend and the entire preceding tax year. The lower 12.5% rate applies only to dividends paid from regular income (and not derived from an Approved, Benefited or Preferred Enterprise) in the applicable period and does not apply if the company has more than 25% of its gross income derived from certain types of passive income. If the conditions above in this paragraph are met, dividends from income of an Approved, Benefited or Preferred Enterprise are subject to a 15% withholding tax rate under the U.S.-Israel Tax Treaty.

Residents of the United States generally will have withholding tax in Israel deducted at source. They may be entitled to a credit or deduction for United States federal income tax purposes in the amount of the taxes withheld, subject to detailed rules contained in United States tax legislation.

A non-resident of Israel who has dividend income derived from or accrued in Israel, from which tax was withheld at source, is generally exempt from the duty to file tax returns in Israel with respect to such income, provided such income was not derived from a business conducted in Israel by the taxpayer.

### **United States Federal Income Tax Consequences**

THE FOLLOWING SUMMARY IS INCLUDED HEREIN FOR GENERAL INFORMATION AND IS NOT INTENDED TO BE, AND SHOULD NOT BE CONSIDERED TO BE, LEGAL OR TAX ADVICE. EACH U.S. HOLDER SHOULD CONSULT WITH HIS OR HER OWN TAX ADVISOR AS TO THE PARTICULAR U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP AND SALE OF ORDINARY SHARES AND AMERICAN DEPOSITORY SHARES, INCLUDING THE EFFECTS OF APPLICABLE STATE, LOCAL, FOREIGN OR OTHER TAX LAWS AND POSSIBLE CHANGES IN THE TAX LAWS.

Subject to the limitations described in the next paragraph, the following discussion summarizes the material U.S. federal income tax consequences to a "U.S. Holder" arising from the purchase, ownership and sale of our ordinary shares and ADSs. For this purpose, a "U.S. Holder" is a holder of ordinary shares or ADSs that is: (i) an individual citizen or resident of the United States, including an alien individual who is a lawful permanent resident of the United States or meets the substantial presence residency test under U.S. federal income tax laws; (ii) a corporation (or entity treated as a corporation for U.S. federal income tax purposes) or a partnership (other than a partnership that is not treated as a U.S. person under any applicable U.S. Treasury regulations) created or organized under the laws of the United States or the District of Columbia or any political subdivision thereof; (iii) an estate, the income of which is includable in gross income for U.S. federal income tax purposes regardless of source; (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have authority to control all substantial decisions of the trust; or (v) a trust that has a valid election in effect to be treated as a U.S. person to the extent provided in U.S. Treasury regulations.

This summary is for general information purposes only and does not purport to be a comprehensive description of all of the U.S. federal income tax considerations that may be relevant to a decision to purchase our ordinary shares or ADSs. This summary generally considers only U.S. Holders that will own our ordinary shares or ADSs as capital assets. Except to the limited extent discussed below, this summary does not consider the U.S. federal tax consequences to a person that is not a U.S. Holder, nor does it describe the rules applicable to determine a taxpayer's status as a U.S. Holder. This summary is based on the provisions of the Internal Revenue Code of 1986, as amended, or the Code, final, temporary and proposed U.S. Treasury regulations promulgated thereunder, administrative and judicial interpretations thereof, and the Convention between the Government of the United States of America and the Government of Israel With Respect to Taxes on Income, or the U.S./Israel Income Tax Treaty, all as in effect as of the date hereof and all of which are subject to change, possibly on a retroactive basis, and all of which are open to differing interpretations. We will not seek a ruling from the U.S. Internal Revenue Service, or IRS, with regard to the U.S. federal income tax treatment of an investment in our ordinary shares or ADSs by U.S. Holders and, therefore, can provide no assurances that the IRS will agree with the conclusions set forth below.

This discussion does not address all of the aspects of U.S. federal income taxation that may be relevant to a particular U.S. holder based on such holder's particular circumstances and in particular does not discuss any estate, gift, generation-skipping, transfer, state, local, excise or foreign tax considerations. In addition, this discussion does not address the U.S. federal income tax treatment of a U.S. Holder who is: (i) a bank, life insurance company, regulated investment company, or other financial institution or "financial services entity"; (ii) a broker or dealer in securities or foreign currency; (iii) a person who acquired our ordinary shares or ADSs in connection with employment or other performance of services; (iv) a U.S. Holder that is subject to the U.S. alternative minimum tax, or ATM; (v) a U.S. Holder that holds our ordinary shares or ADSs as a hedge or as part of a hedging, straddle, conversion or constructive sale transaction or other risk-reduction transaction for U.S. federal income tax purposes; (vi) a tax-exempt entity; (vii) real estate investment trusts or grantor trusts; (viii) a U.S. Holder that expatriates out of the United States or a former long-term resident of the United States; or (ix) a person having a functional currency other than the dollar. This discussion also does not address the U.S. federal income tax treatment of a U.S. Holder that owns, directly or constructively, at any time, ordinary shares or ADSs representing 10% or more of our voting power. Additionally, the U.S. federal income tax treatment of persons who hold ordinary shares or ADSs through a partnership or other pass-through entity are not considered.

Each prospective investor is advised to consult his or her own tax adviser for the specific tax consequences to that investor of purchasing, holding or disposing of our ordinary shares or ADSs, including the effects of applicable state, local, foreign or other tax laws and possible changes in the tax laws.

#### *Taxation of Dividends Paid on Ordinary Shares or ADSs*

We do not intend to pay dividends in the foreseeable future. In the event that we do pay dividends, and subject to the discussion under the heading "Passive Foreign Investment Companies", or PFIC below, a U.S. Holder, other than certain U.S. Holder's that are U.S. corporations, will be required to include in gross income as ordinary income the amount of any distribution paid on ordinary shares or ADSs (including the amount of any Israeli tax withheld on the date of the distribution), to the extent that such distribution does not exceed our current and accumulated earnings and profits, as determined for U.S. federal income tax purposes. The amount of a distribution which exceeds our earnings and profits will be treated first as a non-taxable return of capital, reducing the U.S. Holder's tax basis for the ordinary shares or ADSs to the extent thereof, and then capital gain. We do not expect to maintain calculations of our earnings and profits under U.S. federal income tax principles and, therefore, U.S. Holders should expect that the entire amount of any distribution generally will be reported as dividend income.

On December 22, 2017, President Trump signed into law the Tax Cuts and Jobs Act, or the TCJA. The TCJA provides a 100% deduction for the foreign-source portion of dividends received from "specified 10-percent owned foreign corporations" by U.S. corporate holders, subject to a one-year holding period. No foreign tax credit, including Israeli withholding tax (or deduction for foreign taxes paid with respect to qualifying dividends), would be permitted for foreign taxes paid or accrued with respect to a qualifying dividend. Deduction would be unavailable for "hybrid dividends". The dividend received deduction enacted under the TCJA may not apply to dividends from a PFIC, as discussed below.

In general, preferential tax rates for "qualified dividend income" and long-term capital gains are applicable for U.S. Holders that are individuals, estates or trusts. For this purpose, "qualified dividend income" means, among other things, dividends received from a "qualified foreign corporation". A "qualified foreign corporation" is a corporation that is entitled to the benefits of a comprehensive tax treaty with the United States which includes an exchange of information program. The IRS has stated that the Israel/U.S. Tax Treaty satisfies this requirement and we believe we are eligible for the benefits of that treaty.

In addition, our dividends, if any, will be qualified dividend income if our ordinary shares or ADSs are readily tradable on the Nasdaq or another established securities market in the United States. Dividends will not qualify for the preferential rate if we are treated, in the year the dividend is paid or in the prior year, as a PFIC, as described below under PFIC. A U.S. Holder will not be entitled to the preferential rate: (i) if the U.S. Holder has not held our ordinary shares or ADSs for at least 61 days of the 121 day period beginning on the date which is 60 days before the ex-dividend date; or (ii) to the extent the U.S. Holder is under an obligation to make related payments on substantially similar property. Any days during which the U.S. Holder has diminished its risk of loss on our ordinary shares or ADSs are not counted towards meeting the 61-day holding period. Finally, U.S. Holders who elect to treat the dividend income as “investment income” pursuant to Section 163(d)(4) of the Code will not be eligible for the preferential rate of taxation.

The amount of a distribution with respect to our ordinary shares or ADSs will be measured by the amount of the fair market value of any property distributed, and for U.S. federal income tax purposes, the amount of any Israeli taxes withheld therefrom. Cash distributions paid by us in NIS, if any, will be included in the income of U.S. Holders at a dollar amount based upon the spot rate of exchange in effect on the date the dividend is includible in the income of the U.S. Holder, and U.S. Holders will have a tax basis in such NIS for U.S. federal income tax purposes equal to such dollar value. If the U.S. Holder subsequently converts the NIS into U.S. dollars or otherwise disposes of it, any subsequent gain or loss in respect of such NIS arising from exchange rate fluctuations will be U.S. source ordinary exchange gain or loss.

Distributions paid by us will generally be foreign source income for U.S. foreign tax credit purposes and will generally be considered passive category income for such purposes. Subject to the limitations set forth in the Code and the TCJA, U.S. Holders may elect to claim a foreign tax credit against their U.S. federal income tax liability for Israeli income tax withheld from distributions received in respect of the ordinary shares or ADSs. The rules relating to the determination of the U.S. foreign tax credit are complex, and U.S. Holders should consult with their own tax advisors to determine whether, and to what extent, they are entitled to such credit. U.S. Holders that do not elect to claim a foreign tax credit may instead claim a deduction for Israeli income taxes withheld, provided such U.S. Holders itemize their deductions.

#### *Taxation of the Disposition of Ordinary Shares or ADSs*

Except as provided under the PFIC rules described below under “*Passive Foreign Investment Companies*,” upon the sale, exchange or other disposition of our ordinary shares or ADSs, a U.S. Holder will recognize capital gain or loss in an amount equal to the difference between such U.S. Holder’s tax basis for the ordinary shares or ADSs in dollars and the amount realized on the disposition in dollar (or its dollar equivalent determined by reference to the spot rate of exchange on the date of disposition, if the amount realized is denominated in a foreign currency). The gain or loss realized on the sale, exchange or other disposition of ordinary shares or ADSs will be long-term capital gain or loss if the U.S. Holder has a holding period of more than one year at the time of the disposition.

Gain realized by a U.S. Holder on a sale, exchange or other disposition of ordinary shares or ADSs will generally be treated as U.S. source income for U.S. foreign tax credit purposes. A loss realized by a U.S. Holder on the sale, exchange or other disposition of our ordinary shares or ADSs is generally allocated to U.S. source income. The deductibility of a loss realized on the sale, exchange or other disposition of ordinary shares or ADSs is subject to limitations. An additional 3.8% net investment income tax (described below) may apply to gains recognized upon the sale, exchange or other taxable disposition of our ordinary shares or ADS by certain U.S. Holders who meet certain income thresholds.

#### *Passive Foreign Investment Companies*

Special U.S. federal income tax laws apply to U.S. taxpayers who own shares of a corporation that is a PFIC. We will be treated as a PFIC for U.S. federal income tax purposes for any taxable year that either:

- 75% or more of our gross income (including our pro rata share of gross income for any company, in which we are considered to own 25% or more of the shares by value), in a taxable year is passive; or
- At least 50% of our assets, averaged over the year and generally determined based upon fair market value (including our pro rata share of the assets of any company in which we are considered to own 25% or more of the shares by value) are held for the production of, or produce, passive income.

For this purpose, passive income generally consists of dividends, interest, rents, royalties, annuities and income from certain commodities transactions and from notional principal contracts. Cash is treated as generating passive income.

We believe that we will not be a PFIC for the current taxable year and do not expect to become a PFIC in the foreseeable future. The tests for determining PFIC status are applied annually, and it is difficult to make accurate projections of future income and assets which are relevant to this determination. In addition, our PFIC status may depend in part on the market value of our ordinary shares. Accordingly, there can be no assurance that we currently are not or will not become a PFIC.

If we currently are or become a PFIC, each U.S. Holder who has not elected to treat us as a qualified electing fund by making a “QEF election,” or who has not elected to mark the shares to market (as discussed below), would, upon receipt of certain distributions by us and upon disposition of our ordinary shares or ADSs at a gain: (i) have such distribution or gain allocated ratably over the U.S. Holder’s holding period for the ordinary shares or ADSs, as the case may be; (ii) the amount allocated to the current taxable year and any period prior to the first day of the first taxable year in which we were a PFIC would be taxed as ordinary income; and (iii) the amount allocated to each of the other taxable years would be subject to tax at the highest rate of tax in effect for the applicable class of taxpayer for that year, and an interest charge for the deemed deferral benefit would be imposed with respect to the resulting tax attributable to each such other taxable year. In addition, when shares of a PFIC are acquired by reason of death from a decedent that was a U.S. Holder, the tax basis of such shares would not receive a step-up to fair market value as of the date of the decedent’s death, but instead would be equal to the decedent’s basis if lower, unless all gain were recognized by the decedent. Indirect investments in a PFIC may also be subject to these special U.S. federal income tax rules.

The PFIC rules described above would not apply to a U.S. Holder who makes a QEF election for all taxable years that such U.S. Holder has held the ordinary shares or ADSs while we are a PFIC, provided that we comply with specified reporting requirements. Instead, each U.S. Holder who has made such a QEF election is required for each taxable year that we are a PFIC to include in income such U.S. Holder’s pro rata share of our ordinary earnings as ordinary income and such U.S. Holder’s pro rata share of our net capital gains as long-term capital gain, regardless of whether we make any distributions of such earnings or gain. In general, a QEF election is effective only if we make available certain required information. The QEF election is made on a shareholder-by-shareholder basis and generally may be revoked only with the consent of the IRS. Although we have no obligation to do so, we currently intend to notify U.S. Holders if we believe we will be treated as a PFIC for any tax year in order to enable U.S. Holders to consider whether to make a QEF election. In addition, we intend to furnish U.S. Holders annually with information needed in order to complete IRS Form 8621 and to make and maintain a valid QEF election for any year in which we or any of our subsidiaries are a PFIC. U.S. Holders should consult with their own tax advisors regarding eligibility, manner and advisability of making a QEF election if we are treated as a PFIC.

In addition, the PFIC rules described above would not apply if we were a PFIC and a U.S. Holder made a mark-to-market election. A U.S. Holder of our ordinary shares or ADSs which are regularly traded on a qualifying exchange, including Nasdaq, can elect to mark the ordinary shares or ADSs to market annually, recognizing as ordinary income or loss each year an amount equal to the difference as of the close of the taxable year between the fair market value of the ordinary shares or ADSs and the U.S. Holder’s adjusted tax basis in the ordinary shares or ADSs. Losses are allowed only to the extent of net mark-to-market gain previously included income by the U.S. Holder under the election for prior taxable years.

U.S. Holders who hold our ordinary shares or ADSs during a period, if any, in which we are a PFIC will be subject to the foregoing rules, even if we cease to be a PFIC.

U.S. Holders are strongly urged to consult their tax advisors about the PFIC rules, including tax return filing requirements and the eligibility, manner, and consequences to them of making a QEF or mark-to-market election with respect to our ordinary shares or ADSs in the event that we are a PFIC.

#### *Tax on Net Investment Income*

For taxable years beginning after December 31, 2013, U.S. Holders who are individuals, estates or trusts will generally be required to pay a 3.8% Medicare tax on their net investment income (including dividends on and gains from the sale or other disposition of our ordinary shares or ADSs), or in the case of estates and trusts on their net investment income that is not distributed. In each case, the 3.8% Medicare tax applies only to the extent the U.S. Holder’s total adjusted income exceeds applicable thresholds.

#### *Tax Consequences for Non-U.S. Holders of Ordinary Shares or ADSs*

Except as provided below, an individual, corporation, estate or trust that is not a U.S. Holder referred to below as a non-U.S. Holder, generally will not be subject to U.S. federal income or withholding tax on the payment of dividends on, and the proceeds from the disposition of, our ordinary shares or ADSs.

A non-U.S. Holder may be subject to U.S. federal income tax on a dividend paid on our ordinary shares or ADSs or gain from the disposition of our ordinary shares or ADSs if: (1) such item is effectively connected with the conduct by the non-U.S. Holder of a trade or business in the United States and, if required by an applicable income tax treaty is attributable to a permanent establishment or fixed place of business in the United States; (2) in the case of a disposition of our ordinary shares or ADSs, the individual non-U.S. Holder is present in the United States for 183 days or more in the taxable year of the disposition and other specified conditions are met.

In general, non-U.S. Holders will not be subject to backup withholding with respect to the payment of dividends on our ordinary shares or ADSs if payment is made through a paying agent, or office of a foreign broker outside the United States. However, if payment is made in the United States or by a U.S. related person, non-U.S. Holders may be subject to backup withholding, unless the non-U.S. Holder provides an applicable IRS Form W-8 (or a substantially similar form) certifying its foreign status, or otherwise establishes an exemption.

The amount of any backup withholding from a payment to a non-U.S. Holder will be allowed as a credit against such holder's U.S. federal income tax liability and may entitle such holder to a refund, provided that the required information is timely furnished to the IRS.

#### *Information Reporting and Withholding*

A U.S. Holder may be subject to backup withholding with respect to cash dividends and proceeds from a disposition of our ordinary shares or ADSs. The rate of backup withholding was decreased from 28% to 24% effective January 1, 2018, within the framework of TCJA. In general, backup withholding will apply only if a U.S. Holder fails to comply with specified identification procedures. Backup withholding will not apply with respect to payments made to designated exempt recipients, such as corporations and tax-exempt organizations. Backup withholding is not an additional tax and may be claimed as a credit against the U.S. federal income tax liability of a U.S. Holder, provided that the required information is timely furnished to the IRS.

Pursuant to recently enacted legislation, a U.S. Holder with interests in "specified foreign financial assets" (including, among other assets, our ordinary shares or ADSs, unless such shares or ADSs are held on such U.S. Holder's behalf through a financial institution) may be required to file an information report with the IRS if the aggregate value of all such assets exceeds \$50,000 on the last day of the taxable year or \$75,000 at any time during the taxable year (or such higher dollar amount as may be prescribed by applicable IRS guidance); and may be required to file a Report of Foreign Bank and Financial Accounts, or FBAR, if the aggregate value of the foreign financial accounts exceeds \$10,000 at any time during the calendar year. You should consult your own tax advisor as to the possible obligation to file such information report.

#### *Tax Cuts and Jobs Act*

On December 22, 2017, President Trump signed into law the TCJA. Although this is the most extensive overhaul of the United States tax regime in over thirty years, except for the aspects mentioned above in this section, the provisions of the TCJA are expected to materially impact U.S. Holder's with respect to such holder's ownership of our ordinary shares or the ADSs.

#### *Medical Devices Excise Tax*

The Patient Protection and Affordable Care Act and the Health Care and Education Affordability Reconciliation Act of 2010 imposes significant new taxes on medical device makers in the form of a 2.3% excise tax on U.S. medical device sales, with certain exemptions, beginning in January 2013. The Consolidated Appropriations Act, 2016, signed into law on December 18, 2015, includes a two-year suspension on the medical device excise tax. Thus, the medical device excise tax did not apply to the sale of a taxable medical device by the manufacturer, producer, or importer of the device during the period beginning on January 1, 2016, and ending on December 31, 2017. On January 22, 2018, H.R. 195 was signed into law and extended the suspension for an additional two years until December 31, 2019. On July 24, 2018, the U.S. House of Representatives passed H.R. 184, a bill that would permanently repeal the tax on medical devices.

#### **F. DIVIDENDS AND PAYING AGENTS**

Not applicable.

#### **G. STATEMENT BY EXPERTS**

Not applicable.

#### **H. DOCUMENTS ON DISPLAY**

We are be subject to the reporting requirements of the Exchange Act, as applicable to "foreign private issuers" as defined in Rule 3b-4 under the Exchange Act, and in accordance therewith, we file annual and interim reports and other information with the SEC.

As a foreign private issuer, we are exempt from certain provisions of the Exchange Act. Accordingly, our proxy solicitations is not be subject to the disclosure and procedural requirements of Regulation 14A under the Exchange Act and transactions in our equity securities by our officers and directors is exempt from reporting and the “short-swing” profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required under the Exchange Act to file periodic reports and financial statements as frequently or as promptly as U.S. companies whose securities are registered under the Exchange Act.

Notwithstanding the foregoing, we furnish reports with the SEC on Form 6-K containing unaudited financial information for the first three quarters of each fiscal year and we will solicit proxies and furnish proxy statements for all meetings of shareholders, a copy of which proxy statement is furnished promptly thereafter with the SEC under the cover of a Current Report on Form 6-K.

As permitted under the Israeli Securities Law, 1968, or the ISL, and approved by our shareholders in May 2018, we comply with the Israeli regime for dual listed companies under Chapter E3 of the ISL, which allows us to use in Israel the same periodic reports, financial and other relevant disclosure information (in English) that we submit to the SEC and Nasdaq. Copies of our filings with the Israeli Securities Authority can be retrieved electronically through the MAGNA distribution site of the ISA ([www.magna.isa.gov.il](http://www.magna.isa.gov.il)) and the TASE website ([www.maya.tase.co.il](http://www.maya.tase.co.il)).

The SEC maintains an Internet website that contains reports and other information regarding issuers that file electronically with the SEC. This annual report and the exhibits thereto and any other document we file pursuant to the Exchange Act may be viewed on the SEC Internet site (<http://www.sec.gov>) and on our website ([www.itamar-medical.com](http://www.itamar-medical.com)). However, the content of our website is not incorporated by reference into this annual report.

The documents concerning our Company which are referred to in this annual report may also be inspected at our offices located at 9 Halamish Street, Caesarea 3088900, Israel.

#### **I. SUBSIDIARY INFORMATION**

Not applicable.

#### **ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS**

##### **General**

Market risk is the risk of loss related to changes in market prices, including interest rates and foreign exchange rates, of financial instruments that may adversely impact our consolidated financial position, results of operations or cash flows.

We are exposed to a variety of these market risks, primarily changes in interest rates and foreign currency fluctuations. To manage the volatility related to the foreign currency exposure, we may enter from time to time into various derivative transactions. However, we do not use financial instruments for trading purposes and are not a party to any leveraged derivative.

As of December 31, 2018, we had cash and cash equivalents and marketable securities of approximately \$6.5 million. As of such date, most of such cash and cash equivalents were held in dollars and NIS. The majority of our cash and cash equivalents are invested in banks in Israel and, to a smaller extent, in banks in the United States. The Israeli bank deposits are not insured, while the deposits made in the United States are in excess of insured limits and are not otherwise insured.

##### **Interest Rate Risk**

We are subject to market risk from exposure to changes in interest rates relating to borrowings under our bank credit line, which carries interest at a rate that is based on the LIBOR. As of December 31, 2018, we had borrowings of approximately \$5.0 million under the bank credit line. Based on the scheduled amount of the borrowings expected to be outstanding under such credit line in 2019, we estimate that each 10% increase in our borrowing rates would result in additional interest expense to us of approximately \$50,000.

We follow an investment policy that was set by our Board of Directors whose primary objectives are to preserve principal while maximizing the income that we receive from our investments without significantly increasing risk and loss. Currently, we invest our free cash in bank deposits which are exposed to market risk due to fluctuation in interest rates, which may affect our interest, except that given the low levels of interest rates worldwide, our interest income is not material and a reduction in interest rates would not cause us a significant reduction in the absolute amounts of interest income to us. Our investment balances are comprised mainly of bank deposits. Because of their short-term nature, the carrying value of the bank deposits usually approximates their fair value.

## Foreign Currency Exchange Risk

Our functional and reporting currency is the U.S. dollar. Although the dollar is our functional currency, a significant portion of our expenses are denominated in NIS and a relatively small portion of our expenses is denominated in Euros, and currently most of our revenues are denominated in dollars. Therefore, our foreign currency exposures give rise to market risk associated with exchange rate movements of the dollar, mainly against the NIS and the Euro. Our NIS and Euro expenses consist principally of payroll to our employees in Israel, payments made to subcontractors for purchasing components to our products, research and development activities and marketing and sales activities. We anticipate that a significant portion of our expenses will continue to be denominated in currencies other than the dollar. If the dollar fluctuates significantly against either the NIS or the Euro, it may have a negative impact on our results of operations. To date, fluctuations in the exchange rates have not materially affected our results of operations or financial condition.

Due to the fact that exchange rates between the dollar and the NIS (as well as between the dollar and other currencies) fluctuate continuously, such fluctuations have an impact on our results and period-to-period comparisons of our results. The effects of foreign currency remeasurements are reported in our consolidated statements of operations. In order to reduce some of this currency exposure, we keep cash balances in NIS. These measures, however, may not adequately protect us from the material adverse effects of such fluctuations.

As of December 31, 2018, we did not enter into any hedge transaction but we may do so in the future. Even if we do enter into such hedge transactions in the future, we cannot guarantee that such measures will effectively protect us from adverse effects due to the impact of fluctuations in currency exchange rates.

In addition, we have balance sheet exposure arising from assets and liabilities denominated in currencies other than the dollar, mainly in NIS and Euros. Any change of the conversion rates between the U.S. dollar and these currencies may create financial gain or loss.

The tables below provide information as of the dates indicated regarding our foreign currency-denominated monetary assets and liabilities as of December 31, 2018 (U.S. dollars in thousands).

<b>Assets:</b>	
New Israeli Shekels	\$ 2,336
Euros	755
Other currencies	72
<b>Total</b>	<b>3,163</b>
<b>Liabilities:</b>	
New Israeli Shekels	2,106
Euros	55
<b>Total</b>	<b>2,161</b>
<b>Net assets</b>	<b>\$ 1,002</b>

## ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

### A. Debt Securities.

Not applicable.

### B. Warrants and rights.

Not applicable.

### C. Other Securities.

Not applicable.

### D. American Depositary Shares

Set forth below is a summary of certain provisions in relation to charges and other payments under the Deposit Agreement, dated February 26, 2019, among Itamar Medical, The Bank of New York Mellon, as depositary (the "Depositary"), and the owners and holders from time to time of ADSs issued thereunder (the "Deposit Agreement"). This summary is not complete and is qualified in its entirety by the Deposit Agreement, a form of which has been filed as Exhibit 1 to the Registration Statement on Form F-6 (Registration No. 333-229100) filed with the SEC on December 31, 2018.



## Fees and Expenses

*Persons depositing or withdrawing shares or ADS holders must pay:*

<i>Persons depositing or withdrawing shares or ADS holders must pay:</i>	<i>For:</i>
\$5.00 (or less) per 100 ADSs (or portion of 100 ADSs)	Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property
	Cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates
\$.05 (or less) per ADS	Any cash distribution to ADS holders
A fee equivalent to the fee that would be payable if securities distributed to you had been shares and the shares had been deposited for issuance of ADSs	Distribution of securities distributed to holders of deposited securities (including rights) that are distributed by the depositary to ADS holders
\$.05 (or less) per ADS per calendar year	Depositary services
Registration or transfer fees that depend on the applicable bank or local custodian *	Transfer and registration of shares on our share register to or from the name of the depositary or its agent when you deposit or withdraw shares
Expenses of the depositary	Cable and facsimile transmissions (when expressly provided in the deposit agreement)
	Converting foreign currency to U.S. dollars
Taxes and other governmental charges the depositary or the custodian has to pay on any ADSs or shares underlying ADSs, such as stock transfer taxes, stamp duty or withholding taxes	As necessary
Any charges incurred by the depositary or its agents for servicing the deposited securities	As necessary

\* The depositary is only entitled to reimbursement of such fees if its local custodian charges such fees. To our knowledge, the depositary's Israeli local custodians do not currently charge any such fees. However, if you hold your shares or ADSs through a bank or broker, you should check whether your bank or broker charge you any similar fees.

The depositary collects its fees for delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depositary may collect its annual fee for depositary services by deduction from cash distributions or by directly billing investors or by charging the book-entry system accounts of participants acting for them. The depositary may collect any of its fees by deduction from any cash distribution payable (or by selling a portion of securities or other property distributable) to ADS holders that are obligated to pay those fees. The depositary may generally refuse to provide fee-attracting services until its fees for those services are paid.

From time to time, the depositary may make payments to us to reimburse us for costs and expenses generally arising out of establishment and maintenance of the ADS program, waive fees and expenses for services provided to us by the depositary or share revenue from the fees collected from ADS holders. In performing its duties under the deposit agreement, the depositary may use brokers, dealers, foreign currency dealers or other service providers that are owned by or affiliated with the depositary and that may earn or share fees, spreads or commissions.

The depository may convert currency itself or through any of its affiliates and, in those cases, acts as principal for its own account and not as agent, advisor, broker or fiduciary on behalf of any other person and earns revenue, including, without limitation, transaction spreads, that it will retain for its own account. The revenue is based on, among other things, the difference between the exchange rate assigned to the currency conversion made under the deposit agreement and the rate that the depository or its affiliate receives when buying or selling foreign currency for its own account. The depository makes no representation that the exchange rate used or obtained in any currency conversion under the deposit agreement will be the most favorable rate that could be obtained at the time or that the method by which that rate will be determined will be the most favorable to ADS holders, subject to the depository's obligations under the deposit agreement. The methodology used to determine exchange rates used in currency conversions is available upon request.

## PART II

### ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not applicable.

### ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

None.

### ITEM 15. CONTROLS AND PROCEDURES

#### *Disclosure Controls and Procedures*

Our management, including our chief executive officer and our chief financial officer, is responsible for establishing and maintaining our disclosure controls and procedures (within the meaning of Rule 13a-15(e) of the Exchange Act). These controls and procedures were designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and that such information was accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure. We evaluated these disclosure controls and procedures under the supervision of our chief executive officer and chief financial officer as of December 31, 2018. Based upon that evaluation, our management, including our chief executive officer and chief financial officer, concluded that our disclosure controls and procedures are effective as of December 31, 2018.

#### *Management's Annual Report on Internal Control Over Financial Reporting*

This annual report does not include a report of management's assessment regarding internal control over financial reporting due to a transition period established by rules of the SEC for newly public companies.

#### *Attestation Report of the Registered Public Accounting Firm*

The effectiveness of our internal control over financial reporting as of December 31, 2018 has not been audited by our registered public accounting firm due to an exemption for emerging growth companies provided in the JOBS Act.

#### *Changes in Internal Control Over Financial Reporting*

There were no changes in the Company's internal control over financial reporting that occurred during the year ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**ITEM 16. RESERVED**

**ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

Our Board of Directors has determined that Yaffa Krindel Sieradzki is an “audit committee financial expert” as defined in Item 16A of Form 20-F and qualifies as an “independent director” in accordance with applicable Exchange Act rules and Nasdaq rules.

**ITEM 16B. CODE OF ETHICS**

We have adopted a Code of Conduct and Business Ethics, or the Code, that applies to our President and Chief Executive Officer, Chief Financial Officer, chief accounting officer or controller, and persons performing similar functions. The Code has been posted on our website, www.itamar-medical.com.

If we make any amendment to the Code or grant any waivers, including any implicit waiver, from a provision of the Code, which applies to our chief executive officer, chief financial officer, chief accounting officer or controller, or persons performing similar functions, we will disclose the nature of such amendment or waiver on our website. The information on our website is not incorporated by reference into this annual report.

**ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

Somekh Chaikin, Certified Public Accountants (Israel), a member of KPMG International, or KPMG, has served as our independent public accountants for each of the years in the three-year period ended December 31, 2018. The following table presents the aggregate fees for professional audit services and other services rendered by KPMG in the years indicated.

	Year Ended December 31, (Amounts in thousands)	
	2018	2017
Audit fees (1)	\$ 150	\$ 197
Audit related fees	-	-
Tax services fees (2)	36	7
All other fees	-	-
Total	\$ 186	\$ 204

- (1) Audit fees consist of fees billed for the annual audit of the Company’s consolidated financial statements and the statutory financial statements of the Company. They also include fees billed for other audit services, which are those services that only the external auditor reasonably can provide, the provision of consents and the review of documents filed with the SEC.
- (2) Tax services fees include fees billed for tax compliance services, including professional services rendered for tax compliance and tax advice, other than in connection with tax audit. Tax compliance involves audit of original and amended tax returns, tax planning and tax advice.

**Audit Committee Pre-approval Policies and Procedures**

Our Audit Committee has adopted a policy and procedures for the pre-approval of audit and non-audit services rendered by KPMG (the “Policy”).

Under the Policy, proposed services either (i) may be pre-approved by the Audit Committee without consideration of specific case-by-case services as general pre-approval; or (ii) require the specific pre-approval of the Audit Committee as specific pre-approval. The Audit Committee may delegate either type of pre-approval authority to one or more of its members. The appendices to the Policy set out the audit, audit-related, tax and other services that have received the general pre-approval of the audit committee, including those described in the footnotes to the table, above; these services are subject to annual review by the Audit Committee. All other audit, audit-related, tax and other services must receive a specific pre-approval from the Audit Committee.

The Audit Committee pre-approves fee levels annually for the audit services. Non-audit services are pre-approved as required. The Chairperson of the Audit Committee may approve non-audit services of up to \$25,000 annually and then request the Audit Committee to ratify his decision.

All of the fees in the table above were approved in accordance with these policies and procedures.

**ITEM 16D. EXEMPTIONS FROM THE LISTING REQUIREMENTS AND STANDARDS FOR AUDIT COMMITTEES**

Not applicable.

**ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

Not applicable.

**Item 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT**

Not applicable.

**Item 16G. CORPORATE GOVERNANCE**

We are a foreign private issuer whose ADSs are listed on the Nasdaq Capital Market. As such, we are required to comply with U.S. federal securities laws, including the Nasdaq rules regarding corporate governance requirements. The Nasdaq rules provide that foreign private issuers may follow home country practice in lieu of certain qualitative listing requirements subject to certain exceptions and except to the extent that such exemptions would be contrary to U.S. federal securities laws, so long as the foreign issuer discloses that it does not follow such listing requirement and describes the home country practice followed in its reports filed with the SEC. Below is a concise summary of the significant ways in which our corporate governance practices differ from the corporate governance requirements of Nasdaq applicable to domestic U.S. listed companies:

The Nasdaq rules require that an issuer have a quorum requirement for shareholders meetings of at least one-third of the outstanding shares of the issuer's common voting stock. As permitted under the Companies Law, our articles of association provide that the quorum for any meeting of shareholders is 33 1/3% of the issued share capital, as required under Nasdaq requirements, however, if the meeting is adjourned for lack of quorum, the quorum for such adjourned meeting will be two shareholders who hold or represent between them at least 10% of the issued and outstanding share capital, instead of 33 1/3% of the issued share capital.

The Nasdaq rules (namely, Nasdaq Listing Rule 5635(c)) also require shareholder approval of stock option plans and other equity compensation arrangements available to officers, directors or employees and any material amendments thereto. We have decided to follow home country practice in lieu of obtaining shareholder approval for our current or future equity incentive plans. However, subject to exceptions permitted under the Companies Law, we are required to seek shareholder approval of any grants of equity incentive awards to directors, chief executive officer and controlling shareholders or plans that require shareholder approval for other reasons.

In addition, we intend to follow the Companies Law in respect of private placements (see under Item 10B. "Memorandum and Articles of Association – Private Placements") instead of Nasdaq requirements to obtain shareholder approval for certain dilutive events (such as issuances that will result in a change of control, certain transactions other than a public offering involving issuances of a 20% or greater interest in us and certain acquisitions of the stock or assets of another company).

Lastly, we have chosen to follow our home country practice in lieu of the requirements of Nasdaq Listing Rule 5250(d)(1), relating to an issuer's furnishing of its annual report to shareholders. Specifically, we file annual reports on Form 20-F, which contain financial statements audited by an independent accounting firm, electronically with the SEC and post a copy on our website.

**Item 16H. MINE SAFETY DISCLOSURE**

Not applicable.

**PART III**

**ITEM 17. FINANCIAL STATEMENTS**

The Company has elected to furnish financial statements and related information specified in Item 18.

**ITEM 18. FINANCIAL STATEMENTS**

The consolidated financial statements and the related notes required by this Item are included in this annual report beginning on page F-1.

**ITAMAR MEDICAL LTD.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF DECEMBER 31, 2018**

**ITAMAR MEDICAL LTD.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF DECEMBER 31, 2018**

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## Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors  
Itamar Medical Ltd.:

### *Opinion on the Consolidated Financial Statements*

We have audited the accompanying consolidated statements of financial position of Itamar Medical Ltd. and its subsidiaries (the “Company”) as of December 31, 2018 and 2017, and the related consolidated statements of operations and comprehensive income (loss), changes in equity, and cash flows, for each of the years in the three-year period ended December 31, 2018, and the related notes (collectively, the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2018, in conformity with International Financial Reporting Standards, as issued by the International Accounting Standards Board.

### *Basis for Opinion*

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Somekh Chaikin

\_\_\_\_\_  
Certified Public Accountants (Isr.)  
Member firm of KPMG International

We have served as the Company’s auditor since 1997.  
Tel-Aviv, Israel  
April 10, 2019



**ITAMAR MEDICAL LTD.**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

	Note	December 31,	
		2018	2017
U.S. dollars in thousands			
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		\$ 6,471	\$ 7,643
Investments in marketable securities	20	-	3,173
Trade receivables	3	6,549	5,362
Other receivables	3	1,018	685
Inventories	4	2,235	2,260
<b>Total current assets</b>		<u>16,273</u>	<u>19,123</u>
<b>Non-current assets</b>			
Long-term restricted deposits and prepaid expenses		365	382
Long-term trade receivables	3	243	473
Property and equipment	5	1,213	1,022
Intangible assets	6	298	277
<b>Total non-current assets</b>		<u>2,119</u>	<u>2,154</u>
<b>Total assets</b>		<u>\$ 18,392</u>	<u>\$ 21,277</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade payables		\$ 1,517	\$ 1,262
Short-term employee benefits	7	222	223
Short-term bank loan	8a	5,000	-
Current maturities of convertible notes	8b	-	10,696
Provisions	9	215	183
Accrued expenses		1,034	1,405
Other accounts payable	10	2,063	1,998
<b>Total current liabilities</b>		<u>10,051</u>	<u>15,767</u>
<b>Non-current liabilities</b>			
Derivative instruments	11	442	2,875
Long-term employee benefits	7	159	310
Other long-term liabilities	12	1,052	948
<b>Total non-current liabilities</b>		<u>1,653</u>	<u>4,133</u>
<b>Total liabilities</b>		<u>11,704</u>	<u>19,900</u>
<b>Commitments</b>	12		
<b>Equity</b>	14		
Ordinary share capital		748	683
Additional paid-in capital		111,486	105,585
Capital reserve from marketable securities available-for-sale		-	113
Accumulated deficit		(105,546)	(105,004)
<b>Total equity</b>		<u>6,688</u>	<u>1,377</u>
<b>Total liabilities and equity</b>		<u>\$ 18,392</u>	<u>\$ 21,277</u>

The accompanying notes are an integral part of these consolidated financial statements.

**ITAMAR MEDICAL LTD.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	Note	Year Ended December 31,		
		2018	2017	2016
		U.S. dollars in thousands (except per share data)		
Revenues	16	\$ 24,189	\$ 20,701	\$ 18,440
Cost of revenues	17	5,726	5,002	4,979
<b>Gross profit</b>		<u>18,463</u>	<u>15,699</u>	<u>13,461</u>
Operating expenses:				
Selling and marketing expenses		12,699	12,140	14,035
Research and development expenses		3,638	4,129	3,225
General and administrative expenses		5,247	5,278	6,213
<b>Total operating expenses</b>		<u>21,584</u>	<u>21,547</u>	<u>23,473</u>
<b>Operating loss</b>		<u>(3,121)</u>	<u>(5,848)</u>	<u>(10,012)</u>
Financial income from cash and investments	18	244	1,591	716
Financial expenses from notes, loans and other	18	(1,161)	(4,884)	(4,760)
Gain (loss) from derivatives instruments, net	18	2,433	3,925	(216)
<b>Financial income (expenses), net</b>		<u>1,516</u>	<u>632</u>	<u>(4,260)</u>
Loss before taxes on income		(1,605)	(5,216)	(14,272)
Taxes on income	13	(124)	(85)	(131)
<b>Net loss</b>		<u>\$ (1,729)</u>	<u>\$ (5,301)</u>	<u>\$ (14,403)</u>
<b>Loss per share (in U.S. dollars):</b>	19			
Basic		<u>\$ (0.01)</u>	<u>\$ (0.02)</u>	<u>\$ (0.05)</u>
Diluted		<u>\$ (0.01)</u>	<u>\$ (0.02)</u>	<u>\$ (0.05)</u>

The accompanying notes are an integral part of these consolidated financial statements.

**ITAMAR MEDICAL LTD.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

	Note	Year Ended December 31,		
		2018	2017	2016
		U.S. dollars in thousands		
<b>Net loss</b>		\$ (1,729)	\$ (5,301)	\$ (14,403)
<b>Other comprehensive income (loss) items that will not be carried to the statements of operations</b>				
Actuarial gains (losses) of defined benefit plan, net of tax	7	166	(112)	(107)
<b>Total other comprehensive income (loss) for the year that will not be carried to the statements of operations, net of tax</b>		166	(112)	(107)
<b>Other comprehensive income (loss) items that after preliminary recognition in comprehensive income (loss), were or will be carried to the statements of operations</b>				
Net change in fair value of marketable securities available-for-sale, net of tax		-	158	9
Net change in fair value of marketable securities through other comprehensive income (loss), net of tax that was transferred to the statements of operations		(113)	-	-
<b>Total other comprehensive income (loss) items that after preliminary recognition in comprehensive income, were or will be carried to the statements of operations, net of tax</b>		(113)	158	9
<b>Other total comprehensive income (loss)</b>		53	46	(98)
<b>Total comprehensive loss</b>		<u>\$ (1,676)</u>	<u>\$ (5,255)</u>	<u>\$ (14,501)</u>

The accompanying notes are an integral part of these consolidated financial statements.

**ITAMAR MEDICAL LTD.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

	Ordinary share capital	Additional paid-in capital	Capital reserve from marketable securities available- for-sale	Accumulated deficit	Total
	U.S. dollars in thousands				
<b>For the year ended December 31, 2016</b>					
Balance as of January 1, 2016	\$ 670	\$ 104,486	\$ (54)	\$ (88,151)	\$ 16,951
<b>Total comprehensive loss:</b>					
Net loss	-	-	-	(14,403)	(14,403)
Other comprehensive loss, net of tax	-	-	9	(107)	(98)
Total comprehensive loss	-	-	9	(14,510)	(14,501)
<b>Transactions carried directly to equity:</b>					
Issuance of shares due to the exercise of options	1	16	-	-	17
Issuance of shares and warrants, net of issuance costs	8	990	-	-	998
Share-based payment	-	-	-	1,776	1,776
<b>Balance as of December 31, 2016</b>	<b>\$ 679</b>	<b>\$ 105,492</b>	<b>\$ (45)</b>	<b>\$ (100,885)</b>	<b>\$ 5,241</b>
<b>For the year ended December 31, 2017</b>					
Balance as of January 1, 2017	\$ 679	\$ 105,492	\$ (45)	\$ (100,885)	\$ 5,241
<b>Total comprehensive loss:</b>					
Net loss	-	-	-	(5,301)	(5,301)
Other comprehensive income, net of tax	-	-	158	(112)	46
Total comprehensive loss	-	-	158	(5,413)	(5,255)
<b>Transactions carried directly to equity:</b>					
Issuance of shares due to the exercise of options	4	93	-	-	97
Share-based payment	-	-	-	1,294	1,294
<b>Balance as of December 31, 2017</b>	<b>\$ 683</b>	<b>\$ 105,585</b>	<b>\$ 113</b>	<b>\$ (105,004)</b>	<b>\$ 1,377</b>
<b>For the year ended December 31, 2018</b>					
Balance as of January 1, 2018	\$ 683	\$ 105,585	\$ 113	\$ (105,004)	\$ 1,377
<b>Total comprehensive loss:</b>					
Net loss	-	-	-	(1,729)	(1,729)
Other comprehensive income, net of tax	-	-	(113)	166	53
Total comprehensive loss	-	-	(113)	(1,563)	(1,676)
<b>Transactions carried directly to equity:</b>					
Issuance of shares due to the exercise of options	3	77	-	-	80
Issuance of shares, net of issuance costs	62	5,739	-	-	5,801
Share-based payment	-	-	-	1,021	1,021
Capital reserve from transactions with shareholders	-	85	-	-	85
<b>Balance as of December 31, 2018</b>	<b>\$ 748</b>	<b>\$ 111,486</b>	<b>\$ -</b>	<b>\$ (105,546)</b>	<b>\$ 6,688</b>

The accompanying notes are an integral part of these consolidated financial statements.

**ITAMAR MEDICAL LTD.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Year Ended December 31,		
	2018	2017	2016
	U.S. dollars in thousands		
<b>Cash flows from operating activities:</b>			
Net loss	\$ (1,729)	\$ (5,301)	\$ (14,403)
Adjustments for:			
Depreciation and amortization	481	509	434
Share-based payment	1,021	1,294	1,776
Capital gain from sale of property and equipment	-	(8)	-
Change in provision for doubtful and bad debt	104	147	849
Net financial cost	914	3,133	4,110
Loss (gain) from reevaluation of derivatives	(2,433)	(3,925)	216
Increase in trade receivables	(1,061)	(833)	(1,548)
Decrease (increase) in other accounts receivable	(330)	169	(157)
Increase in inventories	(340)	(711)	(430)
Increase (decrease) in trade payables	237	(66)	289
Increase in other accounts payable and accrued expenses	61	669	188
Increase (decrease) in employee benefits	14	67	(111)
Increase (decrease) in provisions	32	16	(71)
Income tax expenses	124	85	131
Taxes paid during the year	(176)	(83)	(228)
Net interest paid during the year	(802)	(1,344)	(1,675)
<b>Net cash used in operating activities</b>	<u>(3,883)</u>	<u>(6,182)</u>	<u>(10,630)</u>
<b>Cash flows from investing activities:</b>			
Sale of marketable securities	3,109	-	-
Purchase of property and equipment, intangible assets and capitalization of development expenditure	(310)	(296)	(455)
Investment in restricted long-term deposits	-	(22)	(113)
<b>Net cash provided by (used in) investing activities</b>	<u>2,799</u>	<u>(318)</u>	<u>(568)</u>
<b>Cash flows from financing activities:</b>			
Proceeds from issuance of shares and warrants, net of issuance costs	5,209	-	998
Short-term bank credit	5,000	-	-
Repayment of convertible notes	(9,939)	(10,421)	-
Issuance of warrants	-	-	85
Repayment of shareholders' loans	(435)	-	-
Issuance of shares due to the exercise of stock options	80	97	17
<b>Net cash provided by (used in) financing activities</b>	<u>(85)</u>	<u>(10,324)</u>	<u>1,100</u>
<b>Decrease in cash and cash equivalents</b>	(1,169)	(16,824)	(10,098)
<b>Cash and cash equivalents at beginning of year</b>	7,643	23,358	33,019
<b>Effect of exchange rate fluctuations on balances of cash and cash equivalents</b>	(3)	1,109	437
<b>Cash and cash equivalents at end of year</b>	<u>\$ 6,471</u>	<u>\$ 7,643</u>	<u>\$ 23,358</u>
<b>Non-cash financing activity – conversion of notes to a loan from related parties and to shares</b>	<u>\$ 1,076</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these consolidated financial statements.

**ITAMAR MEDICAL LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 – GENERAL**

**a. Reporting entity**

Itamar Medical Ltd. (the “Company”) is a company incorporated in Israel, with registered office at 9 Halamish Street, North Industrial Zone, Caesarea, Israel. The consolidated financial statements of the Company as of December 31, 2018 and 2017 and for each of the three years in the period ended December 31, 2018 comprise the Company and its subsidiaries (together referred to as the “Group”). The Company is engaged in research, development, sales and marketing of non-invasive medical devices for the diagnosis of respiratory sleep disorders with a focus on the cardiology market. The Company offers a Total Sleep Solution™ to help physicians provide comprehensive sleep apnea management in a variety of clinical environments to optimize patient care and reduce healthcare costs. Its flagship Peripheral Arterial Tone biological signal (“PAT”) -based product, the WatchPAT™ device, is a home-use diagnostic device for sleep breathing disorders. It also offers the Endo PAT™ system, an FDA-approved device to test endothelial dysfunction and to evaluate the risk of heart disease and other cardiovascular diseases. The ordinary shares of the Company are listed on the Tel Aviv Stock Exchange Ltd. (“TASE”). On February 27, 2019, the Company’s American Depositary Shares (“ADSs”), each of which represents 30 ordinary shares of the Company, represented by American Depositary Receipts (“ADRs”), were registered for trade on the Nasdaq Capital Market.

**b. The Company’s financial position**

As described in Note 22a, during February and March 2019, the Company raised total consideration of \$14.7 million in a private placement. In addition, as describe in Note 8a, on March 12, 2019, the Company increased its credit facility with a bank from up to \$10 million to up to \$15 million. The Company’s management and Board of Directors are in the opinion that, based on the positive trend of its operating results, the bank credit facility, the private placement and the Company’s ability to adjust its budget to business developments, the Company has enough financial resources in order to continue its business activities in the twelve-month period from the date of approval of these financial statements. In addition, management continuously assesses its actual results and monitors its financial covenants and is able to respond by reducing and monitoring its operating expenses in case it does not meet its targets.

**NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies set out below have been consistently applied for all years presented in these consolidated financial statements, except for the new accounting standards and amendments to accounting standards, that the Group adopted commencing January 1, 2018, as described below:

**a. International financial reporting standards**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”).

These consolidated financial statements were approved by the Company’s Board of Directors on April 10, 2019.

**b. Reporting and functional currency**

These consolidated financial statements are presented in U.S. dollars (“dollar” or “\$”), which is the Company’s functional currency representing the principal economic environment in which the Company operates, and have been rounded to the nearest thousand unless otherwise indicated.

**c. Basis of measurement**

These consolidated financial statements have been prepared on the historical cost basis, except for certain investments and derivatives and other financial instruments measured at fair value through profit or loss, provisions, and assets and liabilities with respect to employee benefits.

**ITAMAR MEDICAL LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**d. Principles of consolidation**

Subsidiaries are entities controlled by the Company. The financial statements of the subsidiaries, which are wholly-owned, are included in the consolidated financial statements of the Company from the date of their incorporation. Intercompany balances and transactions between Group companies are eliminated in consolidation.

**e. Use of estimates and critical assumptions**

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements as well as affect the reported amounts of revenues and expenses during the period. These estimates and assumptions are reviewed on an ongoing basis using available information. Actual results could differ from these estimates and assumptions. The items subject to significant estimates and assumptions by management include share-based compensation, the measurement of financial instruments at fair value, the fair value of the embedded warrant component of convertible notes, and the fair value of warrants where there is no active market.

**f. Foreign currency transactions and balances**

Transactions in foreign currency are translated to the respective functional currency of the Group entities at exchange rates as of the transaction dates.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency, translated at the exchange rate at the end of the year. Non-monetary assets and liabilities denominated in foreign currency that are measured in terms of historical cost, are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising from translation into the functional currency are recognized in the statements of operations.

**g. Changes in accounting policies - initial application of new standards and interpretations**

**(1) IFRS 9 (2014), *Financial Instruments* (“IFRS 9”)**

As from January 1, 2018, the Group adopted IFRS 9, which replaces IAS 39, *Financial Instruments: Recognition and Measurement*, using the cumulative impact approach, with an adjustment to the balance of accumulated deficit as of January 1, 2018 and without restating the comparative figures. As applicable to the Group, the adoption of IFRS 9 had no material effect on and did not change the classification or measurement of its financial statements, except the measurement of expected credit losses (through December 31, 2017, the Group applied the incurred credit model under IAS 39).

IFRS 9 sets forth the guidance relating to the classification and measurement of financial assets and liabilities, the accounting for expected credit losses of financial assets and commitments to extend credits, as well as the requirements for hedge accounting. As described in section i below, the adoption of IFRS 9 did not have a material effect on the Company’s financial statements.

**(2) IFRS 15, *Revenues from Contracts with Customers* (“IFRS 15”)**

As from January 1, 2018, the Group adopted IFRS 15, which provides new guidance on revenue recognition.

The Group elected to adopt IFRS 15, using the cumulative impact approach, with an adjustment to the balance of accumulated deficit as of January 1, 2018 and without restating the comparative figures.

**ITAMAR MEDICAL LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

IFRS 15 introduces a new five step model for recognizing revenue from contracts with customers:

- (a) Identifying the contract with the customer.
- (b) Identifying distinct performance obligations in the contract.
- (c) Determining the transaction price.
- (d) Allocating the transaction price to distinct performance obligations.
- (e) Recognizing revenue when the performance obligations are satisfied.

As to the revenue recognition policy applied by the Group as from January 1, 2018 under IFRS 15, see section q below.

As part of the initial adoption of IFRS 15, the Group elected to implement the following exemptions:

- (a) Application of the cumulative impact approach only for contracts that have not been concluded at the date of transition; and
- (b) Examining the aggregate impact of changes in the contract that occurred before the date of initial application, instead of an examination of each change separately.

For the year ended December 31, 2018, there was no impact to revenue and to cost of revenue as result of the adoption of IFRS 15. As of January 1, 2018 and December 31, 2018, the Group had an immaterial effect on its financial statements as a result of reclassifying contract liabilities, which were previously deducted from accounts receivables, as current liabilities in respect of contract assets that the rights in their respect are unconditional, together with a corresponding increase to deferred revenue in accordance with the guidance of IFRS 15.

**h. Cash and Cash Equivalents**

Cash and cash equivalents are comprised of available amounts of cash and cash equivalents, mainly represented by highly-liquid short-term investments (with original maturities of three months or less), which are readily convertible into known amounts of cash, and which are not subject to significant risks of changes in their values.

**i. Financial instruments:**

***The accounting policy applied as from January 1, 2018***

As from January 1, 2018, the Group applies the following accounting policies under IFRS 9, see also section g(1) above as to the effect of initial adoption.

**Non-derivative financial assets**

***Initial recognition and measurement of financial assets***

The Group initially recognizes trade receivables and debt instruments issued on the date that they are created. All other financial assets are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument. A financial asset is initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issuance of the financial asset. A trade receivable without a significant financing component is initially measured at the transaction price. Receivables originating from contract assets are initially measured at the carrying amount of the contract assets on the date classification was changed from contract asset to receivables.



**ITAMAR MEDICAL LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

***Derecognition of financial assets***

Financial assets are derecognized when the contractual rights of the Group to the cash flows from the asset expire, or the Group transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. When the Group retains substantially all of the risks and rewards of ownership of the financial asset, it continues to recognize the financial asset.

***Classification of financial assets into categories and the accounting treatment of each category***

Financial assets are classified at initial recognition, based on the business model objectives and nature of the investment: amortized cost; fair value through other comprehensive income (loss) – investment in equity instruments; or fair value through profit and loss.

Debt instrument is classified to amortized cost category if it meets both of the following conditions:

- It is held within a business model whose objective is to hold assets so as to collect contractual cash flows; and
- The contractual terms of the financial asset give rise to cash flows representing solely payments of principal and interest (“SPPI”) on the principal amount outstanding on specified dates.

A debt instrument can also be classified to fair value through other comprehensive income category if its business model objective is achieved by both collecting contractual cash flows and selling financial assets, and it meets the SPPI criteria as above. In certain cases, a debt instrument can be designated at initial acquisition to fair value through profit or loss.

As applicable to the Group, the Group’s debt instruments that are classified to amortized cost category include: deposits, trade and other accounts receivable (including long-term trade receivables). These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss. The Group’s debt instruments that were classified at fair value through other comprehensive income include debt marketable securities. These securities were realized in the beginning of 2018.

The Group classifies its financial assets to fair value through profit and loss category, when:

- It is a debt instrument that does not meet the above criteria;
- It is an investment at fair value through other comprehensive income (loss) in equity securities; or
- It is part of a portfolio of financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis.

These assets are subsequently measured at fair value. As of December 31, 2018, the Group did not have such assets.

Financial assets are not reclassified in subsequent periods unless, and only if, the Group changes its business model for the management of financial debt assets, in which case the affected financial debt assets are reclassified at the beginning of the period following the change in the business model.

***Impairment of financial assets***

IFRS 9 replaces the impairment model of IAS 39 (“incurred loss” model), with an ‘expected credit loss’ (“ECL”) model. The model applies to financial assets measured at amortized cost, investments in debt instruments measured at fair value through other comprehensive income, contract assets (as defined in IFRS 15) and lease receivables, but not to investments in equity instruments.

**ITAMAR MEDICAL LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

Under the new model, the Group assesses the expected credit losses in advance as follows:

- for debt instruments that have low credit risk or for which no significant deterioration has occurred in their credit quality since initial recognition – the impairment loss will be assessed based on the expected credit loss in the period during the 12 months following the reporting date; and
- for debt instruments for which a significant deterioration has occurred in their credit quality since initial recognition and their credit risk is not low, the impairment loss will be assessed based on the remaining life of the instrument.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

**Non-derivative financial liabilities**

Non-derivative financial liabilities include loans and borrowings from banks and others, convertible notes, and trade and other payables.

***Initial recognition of financial liabilities***

The Group initially recognizes debt securities issued on the date that they originated. All other financial liabilities are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument. Liabilities, which are convertible into shares, denominated in a currency different than the functional currency of the Company or linked to the Israeli Consumer Price Index (the “Israeli CPI”), constitute a hybrid instrument presented in full as a financial liability. For measurement, the instrument is separated into two components: (i) a liability component with no conversion feature, which is classified to amortized cost category, and (ii) a conversion option, which constitutes an embedded derivative accounted for as a derivative financial instrument at fair value and is measured through the statements of operations as part of “Financial income (expenses), net”.

***Subsequent measurement of financial liabilities***

Financial liabilities (other than financial liabilities at fair value through profit or loss) and the liability component of the hybrid instrument above are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method. Financial liabilities are designated at fair value through profit or loss if the Group manages such liabilities and their performance is assessed based on their fair value in accordance with the Group’s documented risk management strategy, providing that the designation is intended to prevent an accounting mismatch, or the liability is a combined instrument including an embedded derivative.

***Derecognition of financial liabilities***

Financial liabilities are derecognized when the obligation of the Group, as specified in the agreement, expires or when it is discharged or cancelled.

***Substantial modification in terms of debt instruments***

An exchange of debt instruments having substantially different terms, is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Furthermore, a substantial modification of the terms of an existing financial liability, or an exchange of debt instruments having substantially different terms between an existing borrower and lender, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability at fair value.

In such cases the entire difference between the amortized cost of the original financial liability and the fair value of the new financial liability is recognized in profit or loss as financing income or expense.

The terms are substantially different if the discounted present value of the cash flows according to the new terms, including any commissions paid, less any commissions received and discounted using the original effective interest rate, is different by at least ten percent (10%) from the discounted present value of the remaining cash flows of the original financial liability.

**ITAMAR MEDICAL LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

Upon the swap of debt instruments with equity instruments, equity instruments issued at the extinguishment and de-recognition of all or part of a liability, are a part of “consideration paid” for purposes of calculating the gain or loss from de-recognition of the financial liability.

The equity instruments are initially recognized at fair value, unless fair value cannot be reliably measured – in which case the issued instruments are measured at the fair value of the derecognized liability. Any difference between the amortized cost of the financial liability and the initial measurement amount of the equity instruments is recognized in profit or loss under financial income or expenses.

***Non-substantial modification in terms of debt instruments***

In a non-substantial modification in terms (or exchange) of debt instruments, the new cash flows are discounted using the original effective interest rate, and the difference between the present value of the new financial liability and the present value of the original financial liability is recognized in profit or loss.

***Offset of financial instruments***

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

***Issuance of bundle of securities***

The consideration received from the issuance of a bundle of securities is attributed initially to financial liabilities measured each period at fair value, and then to financial liabilities measured only upon initial recognition at fair value. The remaining amount is the value of the equity component. Direct issuance costs are attributed to the specific securities in respect of which they were incurred, whereas joint issuance costs are attributed to the securities on a proportionate basis according to the grant of the consideration from the issuance of the bundle, as described above.

**Derivative financial instruments**

The Group recognizes all derivative instruments as assets or liabilities in the statements of financial position at their estimated fair values, and the changes in such fair values are recognized in the statements of operations within “Financial income (expenses), net” for the period in which they occur. During the reported years, the Group did not have derivatives designated as hedges. The Group reviews its contracts to identify the existence of embedded derivatives. Identified embedded derivatives in hybrid contracts where the host is not an asset, are analyzed to determine if they need to be separated from the host contract and recognized in the statements of financial position as assets or liabilities, applying the same valuation rules used for other derivative instruments.

**Fair value measurements**

Under IFRS, fair value represents an “Exit Value”, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, considering the counterparty’s credit risk in the valuation. The concept of Exit Value is premised on the existence of a market and market participants for the specific asset or liability. When there is no market and/or market participants willing to make a market, IFRS establishes a fair value hierarchy that gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are as follows:

- Level 1— Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group has the ability to access at the measurement date. A quote price in an active market provides the most reliable evidence of fair value and is used without adjustment to measure fair value whenever available.

**ITAMAR MEDICAL LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

- Level 2— Inputs, other than quoted prices in active markets, that are observable for the asset or liability, either directly or indirectly, and are used mainly to determine the fair value of securities, investments or loans that are not actively traded.
- Level 3— Unobservable inputs for the asset or liability are used when little or no market data is available. The Group used unobservable inputs to determine fair values, to the extent there are no Level 1 or Level 2 inputs, in valuation models such as Black-Scholes, binomial, discounted cash flows or multiples, including risk assumptions consistent with what market participants would use to arrive at fair value.

*The accounting policy applied in periods prior to January 1, 2018*

**Trade accounts receivable and other accounts receivable**

Trade accounts receivable and other accounts receivable are classified as loans and receivables and are recorded at their amortized cost representing the net present value of the consideration receivable or payable as of the transaction date.

Due to their short-term nature, the Group initially recognizes these receivables at the original invoiced amount. Allowances for doubtful accounts were recognized based on incurred loss estimates against general and administrative expenses.

**Long-term trade receivables and other investments**

Long-term trade receivables are initially recognized at their amortized cost. Subsequent changes in net present value are recognized in the statements of operations as part of “Financial income (expenses), net”.

Investments in financial instruments held for trading as well as those investments available-for-sale, are recognized at their estimated fair value, in the first case through the statements of operations as part of “Financial income (expenses), net” and in the second case, changes in valuations are recognized as part of “Other comprehensive income (loss)” for the year within “Capital reserve” until their time of disposition, when all valuation effects accrued in equity are reclassified to “Financial income (expenses), net” in the statements of operations. These investments are tested for impairment upon the occurrence of a significant adverse change or at least once a year during the last quarter.

**Debt and other financial obligations**

Bank loans and notes payable, are recognized at their amortized cost. Interest accrued on financial instruments is recognized within “Other accounts payable and accrued expenses” against financial expenses. Direct costs incurred in debt issuances or borrowings, adjust the carrying amount of the related debt and are amortized as interest expense as part of the effective interest rate of each instrument over its maturity. These costs include commissions and professional fees.

In the statements of cash flows, interest received and interest paid on bank loans and notes payable are presented in cash flows from operating activities.

Liabilities, which are convertible into shares, denominated in a currency different than the functional currency of the Company or linked to the Israeli CPI, constitute a hybrid instrument presented in full as a financial liability. For measurement, the instrument is separated into two components: (i) a liability component with no conversion feature, which is measured at amortized cost according to the effective interest method, and (ii) a conversion option, which constitutes an embedded derivative accounted for as a derivative financial instrument at fair value and is measured through the statements of operations as part of “Financial income (expenses), net”.

**Issuance of bundle of securities**

The consideration received from the issuance of a bundle of securities is attributed initially to financial liabilities measured each period at fair value, and then to financial liabilities measured only upon initial recognition at fair value. The remaining amount is the value of the equity component. Direct issuance costs are attributed to the specific securities in respect of which they were incurred, whereas joint issuance costs are attributed to the securities on a proportionate basis according to the grant of the consideration from the issuance of the bundle, as described above.

**ITAMAR MEDICAL LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**Derivative financial instruments**

The Group recognizes all derivative instruments as assets or liabilities in the statements of financial position at their estimated fair values, and the changes in such fair values are recognized in the statements of operations within “Financial income (expenses), net” for the period in which they occur. During the reported years, the Group did not have derivatives designated as hedges. The Group reviews its contracts to identify the existence of embedded derivatives. Identified embedded derivatives are analyzed to determine if they need to be separated from the host contract and recognized in the statements of financial position as assets or liabilities, applying the same valuation rules used for other derivative instruments.

**j. Inventories**

Inventories are valued using the lower of cost and net realizable value. The cost of inventories is based on the “moving-average” method, including expenditures incurred in acquiring the inventories and the costs incurred in bringing it to its existing location and condition. The Group analyzes its inventory balances to determine if, as a result of internal events, such as physical damage, or external events, such as technological changes or market conditions, certain portions of such balances have become obsolete or impaired. When an impairment situation arises, the inventory balance is adjusted to its net realizable value, whereas, if an obsolescence situation occurs, the inventory obsolescence reserve is increased. In both cases, these adjustments are recognized against the results of the period. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs to complete and sell the inventories.

**k. Property and equipment**

Property and equipment are recognized at their acquisition or construction cost, as applicable, less accumulated depreciation and accumulated impairment losses. Depreciation of property and equipment is recognized as part of operating expenses, and is calculated using the straight-line method over the estimated useful lives of the assets. As of December 31, 2018, the average useful lives by category of property and equipment were as follows:

	<u>%</u>
Office furniture and equipment	10
Equipment and devices for leasing and for internal use	15
Computers	33

Leasehold improvements are amortized over the shorter of the lease term and their useful lives.

Depreciation methods and useful lives are reviewed at the end of each reporting year and adjusted if appropriate.

**l. Intangible assets**

The Group capitalizes intangible assets acquired, as well as costs incurred in the development of certain intangible assets for internal use, when future economic benefits associated are identified and there is evidence of control over such benefits.

Intangible assets are recognized at their acquisition or development cost, as applicable. All of the Group’s intangible assets are definite life intangible assets, and are amortized on straight-line basis over the useful life of the asset, which on average is approximately three years.

Expenditure on research activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognized in the statements of operations when incurred. Development activities are related to a plan to produce new products or processes, or to significantly improve existing products or processes. Development expenditure is capitalized only if: (i) the expenditure can be measured reliably; (ii) the product or process is technically and commercially feasible; and (iii) future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalized in respect of development activities includes the cost of materials, direct labor and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognized in the statements of operations as incurred.

**ITAMAR MEDICAL LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

In subsequent periods, capitalized development expenditure is measured at cost less accumulated amortization and any accumulated impairment losses.

Amortization methods and useful lives are reviewed at the end of each reporting year and adjusted if appropriate.

**m. Impairment of property and equipment, intangible assets of definite life and other investments**

These assets are tested for impairment upon the occurrence of factors such as the occurrence of a significant adverse event, changes in the Group's operating environment or in technology, as well as expectations of lower operating results, in order to determine whether their carrying amounts may not be recovered. An impairment loss is recorded in the statements of operations for the period within "Other expenses, net", for the excess of the asset's carrying amount over its recoverable amount, corresponding to the higher of the fair value less costs to sell the asset, and the asset's value in use, the latter represented by the net present value of estimated cash flows related to the use and eventual disposal of the asset.

No impairment loss was recorded during the reported years.

**n. Provisions**

The Group recognizes provisions when it has a legal or constructive obligation resulting from past events, whose resolution would imply cash outflows or the delivery of other resources owned by the Group.

Obligations or losses related to contingencies are recognized as liabilities in the statements of financial position only when present obligations exist resulting from past events and it is probable to result in an outflow of resources and the amount can be measured reliably. Otherwise, a qualitative disclosure is included in the notes to the financial statements. The provisions are determined by discounting the future cash flows at a pre-tax interest rate, reflecting the current market estimates of the time value of the money and the specific risks of the liability without weighting the Group's credit risk. The carrying value of the provision is then adjusted in every period so as to reflect the passage of time and the adjustment amount is credited to financial expenses.

**o. Post-employment benefits**

The costs of defined contribution plans are recognized in the operating results as they are incurred. Liabilities arising from such plans are settled through cash transfers to the employees' retirement accounts with insurance companies or with funds managed by others, without generating future obligations. The majority of the Israeli employees are under defined contribution plans.

The rest of the Israeli employees are under defined benefit plans. The costs associated with defined benefit plans are recognized as services are rendered, based on actuarial estimations of the benefits' present value with the advice of external actuaries.

**p. Share-based payment transactions**

The grant-date fair value of share-based payment awards granted to employees and directors is recognized as a salary expense, with a corresponding increase in equity, over the period that the employees and directors become unconditionally entitled to the awards. The amount recognized as an expense in respect of share-based payment awards that are conditional upon meeting service and non-market performance conditions, is adjusted to reflect the number of awards that are expected to vest.

For share-based payment awards with non-vesting conditions or with market performance vesting conditions, the grant date fair value of the share-based payment awards is measured to reflect such conditions, and therefore the Group recognizes an expense in respect of the awards whether or not the conditions have been met.

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The fair value at the time of grant of share-based payment awards to consultants and service providers are recognized over the consultants' and the service providers' period of service against an increase in equity. The fair value of the services is calculated on the basis of the fair value of the awards and not on the basis of the fair value of the services, since it is not possible to reliably estimate the fair value of the services rendered.

The Group elected to record the increase in equity against salary expense directly to accumulated deficit.

**q. Revenue recognition**

***The accounting policy applied as from January 1, 2018***

As from January 1, 2018, the Group applies the following accounting policies under IFRS 15. See also section g(2) above as to the effect of initial adoption.

The Group recognizes revenues when the customer obtains control over the products or services that have been secured, net of provision for returns and discounts. The revenue is measured according to the amount of consideration that the Group expects to be entitled to in return for the transfer of products or services promised to the customer, other than amounts collected in favor of third parties.

The Group recognizes estimated sales discounts as a reduction of sales in the same period revenue is recognized. The Group adjusts reserves to reflect differences between estimated and actual. The Group estimates its sales returns reserve based on historical return rates and analysis of specific accounts.

When the Group sells its products through distributors, revenue is being recognized upon delivery of the product to the distributor, as the distributors does not have the right to return and the control over the products is transferred at this point in time.

**Identifying the contract**

The Group accounts for a contract with a customer only when the following conditions are met:

- (a) The parties to the contract have approved the contract (in writing, orally or according to other customary business practices) and they are committed to satisfying the obligations attributable to them;
- (b) The Group can identify the rights of each party in relation to the products or services that will be transferred;
- (c) The Group can identify the payment terms for the products or services that will be transferred;
- (d) The contract has a commercial substance (i.e. the risk, timing and amount of the entity's future cash flows are expected to change as a result of the contract); and
- (e) It is probable that the consideration, to which the Group is entitled to in exchange for the products or services transferred to the customer, will be collected.

If a contract with a customer does not meet all of the above criteria, consideration received from the customer is recognized as a liability until the criteria are met or when one of the following events occurs: (i) the Group has no remaining obligations to transfer products or services to the customer and any consideration promised by the customer has been received and cannot be returned; or (ii) the contract has been terminated and the consideration received from the customer cannot be refunded.

**Identifying performance obligations**

The Group identifies products or services promised to the customer as being distinct performance obligations when the customer can benefit from the products or services on their own or in conjunction with other readily available resources and the Group's promise to transfer the products or services to the customer is separately identifiable from other promises in the contract. In order to examine whether a promise to transfer products or services is separately identifiable, the Group examines whether it is providing a significant service of integrating the products or services with other products or services promised in the contract into one integrated outcome that is the purpose of the contract.

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Products or services that are not considered as being distinct are grouped together as a single performance obligation. The revenue from each such performance obligation is recognized upon transfer of control over the promised products or services to customer. In general, the Group allocates the transaction price to the identified performance obligations in the contract, based on the relative stand-alone selling prices when the products or services are sold separately. In cases where the products or services are not sold separately, for example, in the case of installations or training, the Group establishes the stand-alone selling price assigned to that performance obligation, based on estimated costs plus a reasonable margin.

Significant financing component in installment sales is separated in determining the transaction price.

As applicable to the Group, revenues from sales agreements consisting of multiple products or services, such as devices, consumables, access to the CloudPAT application, WatchPAT Direct logistic services and support, extended warranty and other service agreements, are separated into different performance obligations, based on their relative fair values, and revenue is separately recognized for each performance obligation.

The Group recognizes revenue from renting its products over the rent term, in conformity with the agreement with the customer.

Since 2015, the Group has focused on offering Total Sleep Solution (“TSS”) to the cardiology market through various business models; however, the Test as a Service (“TaaS”), also known as Cost per Test (“CPT”) model, is the primary model the Group utilized to date. In the TaaS model, the medical practice or physician ordering the TaaS pays a fixed fee per home sleep apnea test (“HSAT”) that includes all the components associated with the test, including the disposable biosensor, hardware rental fees and access to the Group’s CloudPAT platform. Under the TaaS model, some rent agreements of the WatchPAT devices are made for a period of one to two years. The rental fees are separated under the relative fair value approach.

In some cases, the Group handles sale transactions of these devices as a finance lease and recognizes revenue in respect of the products supplied at the commencement date of the lease. When these transactions include multiple performance obligations, revenue is recognized based on the relative stand-alone selling prices of each performance obligation in the transaction when they are sold separately.

Operating lease arrangements offer customers theft or loss warranty, for which if elected, the Group makes appropriate provision for their replacement.

**Satisfaction of performance obligations**

Revenue is recognized when the Group satisfies a performance obligation by transferring control over the promised products or services to the customer. Sale of devices and disposables are generally recognized upon shipment. Services (including extended warranty) are recognized ratably over time.

**Contract assets and liabilities**

A contract asset is recognized when the Group has a right to consideration for products or services it transferred to the customer that is conditional on other than the passing of time, such as future performance of the Group. Contract assets are classified as receivables when the rights in their respect become unconditional.

A contract liability is recognized when the Group has an obligation to transfer products or services to the customer for which it received consideration (or the consideration is payable) from the customer.

An asset and liability relating to the same contract are presented on a net basis in the statement of financial position. On the other hand, a contract asset and contract liability deriving from different contracts are presented on a gross basis in the statement of financial position.



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*The accounting policy applied in periods prior to January 1, 2018*

Revenue is measured at the fair value of the consideration received or receivable, net of returns and discounts. The Group recognizes revenue from the sale of its products, net of provision for returns, when persuasive evidence exists (usually in the form of an executed sales agreement) that the significant risks and rewards of ownership of the products have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of products can be estimated reliably, there is no continuing management involvement with the products, and the amount of revenue can be measured reliably. Revenue is recognized when title to the products and risk of loss transfers to customers, provided there are no material remaining performance obligations required of the Group or any matters requiring customer acceptance. The timing of the transfer of risks and rewards may be upon shipment or upon delivery to the customer site, based on the contract terms or legal requirements.

The Group recognizes estimated sales discounts as a reduction of sales in the same period revenue is recognized. The Group adjusts reserves to reflect differences between estimated and actual. The Group estimates its sales returns reserve based on historical return rates and analysis of specific accounts.

Revenues from sales agreements consisting of multiple elements, such as devices, consumables, access to the CloudPAT application, WatchPAT Direct logistic services and support and other service agreements, are separated into different components and are separately recognized for each component. A component constitutes a separate accounting unit if and only if it has value, separately, for the customer. Components not separated, are grouped together. The revenue from each such component is recognized upon fulfillment of the conditions for recognition of revenue, based on the nature of the component, i.e., as products or as services. In general, the Group determines the fair value for each element, based on selling prices when the product or service is sold separately. In cases where the components are not sold separately, for example, in the case of installations or training, the Group establishes the value assigned to this element, based on estimated costs plus a reasonable margin.

The Group recognizes revenue from leasing its products over the lease term, in conformity with the agreement with the customer. In some cases, the Group handles sale transactions in these devices as finance lease and recognizes revenues in respect of the products supplied, based on their relative fair value compared to all the components in the transaction.

When the Group sells its products through distributors, revenue is being recognized upon delivery of the product to the distributor, as the distributors does not have the right to return and the material risks and rewards inherent to the ownership of the products are transferred at this time.

**r. Income taxes**

The effects reflected in the statements of operations for income taxes include the amounts incurred during the period and the amounts of deferred income taxes, determined according to the income tax law applicable to each Group company. Consolidated deferred income taxes represent the addition of the amounts determined in each Group company by applying the enacted statutory income tax rate to the total temporary differences resulting from comparing the book and taxable values of assets and liabilities, considering tax assets such as loss carryforwards and other recoverable taxes, to the extent that it is probable that future taxable profits will be available against which they can be utilized. The measurement of deferred income taxes at the reporting period reflects the tax consequences that follow the manner in which the Group expects to recover or settle the carrying amount of its assets and liabilities. Deferred income taxes for the period represent the difference between balances of deferred income taxes at the beginning and the end of the period. Deferred income tax assets and liabilities relating to different tax jurisdictions are not offset. According to IFRS, all items charged or credited directly in shareholders' equity or as part of other comprehensive income or loss for the period are recognized net of their current and deferred income tax effects. The effect of a change in enacted statutory tax rates is recognized in the period in which the change is officially enacted.

Deferred tax assets that were not recognized are reevaluated at each reporting date and recognized if it has become probable that future taxable income will be available against which they can be utilized.

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**s. Loss per share**

The Group presents basic and diluted loss per share data for its ordinary shares. Basic loss per share is calculated by dividing the net loss attributable to holders of ordinary shares of the Company, by the weighted average number of ordinary shares outstanding during the period.

Diluted loss per share is determined by adjusting the loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all potentially dilutive ordinary shares, which include convertible notes and options and warrants issued to shareholders employees, directors and consultants.

**t. Transactions with controlling shareholders**

Assets and liabilities, which are subject to a transaction with a controlling shareholder, are measured at fair value upon the transaction date.

As the transaction is on the equity level, the Company recognized the difference between fair value and the consideration from the transaction in its equity.

**u. New standard not yet adopted:**

**IFRS 16, Leases (“IFRS 16”)**

IFRS 16 supersedes IAS 17, *Leases* and its related interpretations. The provisions of IFRS 16 abrogate the existing requirement from lessees to classify the lease as operating or finance. Instead, with respect to lessees, IFRS 16 presents one model for the accounting treatment of all leases, according to which the lessee must recognize a right to use asset and a lease liability in its financial statements. However, IFRS 16 includes two exceptions to the general model, according to which a lessee may choose not to implement the recognition requirements for an asset, a right-of-use and a liability for short-term lease of up to one year and/or leases in which the underlying asset is of low value.

In addition, IFRS 16 allows the lessee to apply the definition of a lease in one of the following two alternatives consistently to all leases: retrospective application for all lease agreements, i.e., a reevaluation of the existence of a lease for each contract separately or alternatively the application of a practical relief. The provisions of IAS 17 and International Financial Reporting Interpretations Committee (“IFRIC”) 4, “Determining Whether an Arrangement Contains a Lease”, defines criteria with respect to the existing agreements as of the date of initial application of IFRS 16. In addition, IFRS 16 provides new and broader disclosure requirements than those existing today.

IFRS 16 is effective for annual periods beginning on or after January 1, 2019.

IFRS 16 includes various alternatives for the implementation of the transitional provisions, so that one of the following alternatives can be chosen consistently for all leases at initial application: full retrospective application, or application of the cumulative effect, i.e., implementation of IFRS 16 (with the possibility of several concessions) for the first time with adjustments to the opening balance of retained earnings as of that date.

*The manner of implementation of IFRS 16 and expected effects*

The Group intends to adopt IFRS 16 as of January 1, 2019 in the cumulative effect approach, while adjusting the retained earnings as of January 1, 2019. The Group elected to adopt the relief of not separating non-lease components from lease components and instead accounting for all the lease components and related non-lease components as a single lease component. The Group also decided to adopt the relief of not applying the requirement to recognize a right-of-use asset and a lease liability with regard to leases whose lease period ends within 12 months from the date of the initial adoption.

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*Expected effect*

The Group intends to choose to apply the transitional provision according to which it will recognize the IFRS 16 implementation date of the lease liability according to the present value of the balance of the future lease payments, discounted at the lessee's incremental interest rate on that date and concurrently recognize a right-of-use lease asset, which were recognized as an asset or liability prior to the IFRS 16 implementation date. As a result, implementation of IFRS 16 is not expected to have an effect on retained earnings as of the date of initial application

The Group is required to recognize at the initial implementation date a right-of-use asset and lease liability for all leases in which it is found that it has the right to control the use of identified assets for a specified period of time. These changes are expected to result in an increase of \$1.1 million in the balance of the right-of-use assets and a corresponding increase in the balance of the lease liability as of January 1, 2019. In addition, in January 2019, the Group signed an addendum to its lease agreement in Caesarea, Israel whereby it extended the lease period of its offices in Israel for an additional 30-month period, until July 2021. This addendum will result in an increase of \$0.8 million in the balance of the right-of-use assets and a corresponding increase in the balance of the lease liability as of January 20, 2019. Accordingly, depreciation and amortization expenses in respect of an asset will be recognized, and the need to record impairment in respect of a right-of-use asset will be examined in accordance with the provisions of IAS 36, *Impairment of Assets*. In addition, financial expenses in respect of a lease liability will be recognized. Therefore, as from January 1, 2019, rental expenses relating to assets leased under operating leases, which were presented under operating expenses in the statements of operations, will be capitalized as assets and will be amortized under depreciation and amortization expenses in subsequent periods. In addition, the range of nominal discount rates used for measuring lease liabilities ranges from 5.3% in respect of dollar-denominated leases to 8.5%-8.9% in respect of NIS-denominated leases. This range is affected by differences in the length of the lease period, differences in the various asset groups, and a change between the discount rates of the Group companies and the like.

**NOTE 3 - TRADE AND OTHER RECEIVABLES**

	<b>December 31,</b>	
	<b>2018</b>	<b>2017</b>
	<b>U.S. dollars in thousands</b>	
<b>Trade receivables:</b>		
Open accounts	\$ 7,040	\$ 6,048
Checks receivable	22	327
	7,062	6,375
Less - allowance for doubtful accounts	270	540
	6,792	5,835
<b>Is presented in the statements of financial position as follows:</b>		
Under current assets	6,549	5,362
Under non-current assets	243	473
	\$ 6,792	\$ 5,835
	<b>December 31,</b>	
	<b>2018</b>	<b>2017</b>
	<b>U.S. dollars in thousands</b>	
<b>Other receivables:</b>		
Institutions	\$ 181	\$ 330
Advances to suppliers	187	51
Employees	91	121
Prepaid expenses	556	170
Miscellaneous	3	13
	\$ 1,018	\$ 685

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The Group's exposure to credit risk, currency risk and impairment loss in respect of trade and other receivables is described in Note 20.

**NOTE 4 – INVENTORIES**

	December 31,	
	2018	2017
	U.S. dollars in thousands	
Raw materials and auxiliary materials	\$ 1,158	\$ 969
Work in process	277	214
Finished products	800	1,077
	\$ 2,235	\$ 2,260

**NOTE 5 – PROPERTY AND EQUIPMENT**

	Computers and equipment	Equipment and devices for leasing and for internal use	Office furniture and equipment	Leasehold improvements	Total
	U.S. dollars in thousands				
	U.S. dollars in thousands				
<b>Cost:</b>					
Balance as of January 1, 2018	\$ 1,947	\$ 1,093	\$ 467	\$ 317	\$ 3,824
Additions	62	434	9	9	514
Balance as of December 31, 2018	2,009	1,527	476	326	4,338
<b>Accumulated depreciation:</b>					
Balance as of January 1, 2018	1,632	649	319	202	2,802
Depreciation	63	205	26	29	323
Balance as of December 31, 2018	1,695	854	345	231	3,125
<b>Depreciated balance as of December 31, 2018</b>	<b>\$ 314</b>	<b>\$ 673</b>	<b>\$ 131</b>	<b>\$ 95</b>	<b>\$ 1,213</b>
<b>Cost:</b>					
Balance as of January 1, 2017	\$ 1,883	\$ 750	\$ 459	\$ 317	\$ 3,409
Additions	64	349	21	4	438
Disposals	-	(6)	(13)	(4)	(23)
Balance as of December 31, 2017	1,947	1,093	467	317	3,824
<b>Accumulated depreciation:</b>					
Balance as of January 1, 2017	1,570	409	255	167	2,401
Depreciation	62	240	71	37	410
Disposals	-	-	(7)	(2)	(9)
Balance as of December 31, 2017	1,632	649	319	202	2,802
<b>Depreciated balance as of December 31, 2017</b>	<b>\$ 315</b>	<b>\$ 444</b>	<b>\$ 148</b>	<b>\$ 115</b>	<b>\$ 1,022</b>

The Group has assets that have been fully depreciated and are still in use. As of December 31, 2018 and 2017, the original cost of such assets is \$2,928 thousand and \$2,614 thousand, respectively.

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**NOTE 6 – INTANGIBLE ASSETS**

	Computer software	Capitalized development cost	Marketing rights for a medical product	Total
	U.S. dollars in thousands			
<b>Cost:</b>				
Balance as of January 1, 2018	\$ 746	\$ 716	\$ 375	\$ 1,837
Additions	23	90	-	113
Balance as of December 31, 2018	769	806	375	1,950
<b>Accumulated amortization:</b>				
Balance as of January 1, 2018	678	507	375	1,560
Amortization for the year	38	54	-	92
Balance as of December 31, 2018	716	561	375	1,652
<b>Amortized balance as of December 31, 2018</b>	<b>\$ 53</b>	<b>\$ 245</b>	<b>\$ -</b>	<b>\$ 298</b>
<b>Cost:</b>				
Balance as of January 1, 2017	\$ 704	\$ 606	\$ 375	\$ 1,685
Additions	42	110	-	152
Balance as of December 31, 2017	746	716	375	1,837
<b>Accumulated amortization:</b>				
Balance as of January 1, 2017	602	471	355	1,428
Amortization for the year	76	36	20	132
Balance as of December 31, 2017	678	507	375	1,560
<b>Amortized balance as of December 31, 2017</b>	<b>\$ 68</b>	<b>\$ 209</b>	<b>\$ -</b>	<b>\$ 277</b>

The capitalized development costs are in respect of the Group's CloudPAT, a cloud-based information technology platform designed to allow customers to transfer the data of the sleep apnea test results of the Group's products.

**NOTE 7 – EMPLOYEE BENEFITS**

Employee benefits include retirement benefit obligations, short-term benefits and share-based payments. As for retirement benefit obligations, the Group has defined benefit plans for which it contributes to insurance policies.

As for share-based payments, see Note 15 and as for benefits to key executives, see Note 21.

	December 31,	
	2018	2017
	U.S. dollars in thousands	
Presented as part of current liabilities – accounts payable:		
Short-term employee benefits	\$ 222	\$ 223
Presented as part of non-current liabilities:		
Long-term employee benefits	\$ 159	\$ 310

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**Retirement benefit plans - defined benefit plan**

- 1) Movement in net liabilities for defined benefit plans:

	<b>Year Ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
	<b>U.S. dollars in thousands</b>	
Balance at beginning of year	\$ 310	\$ 156
<b>Expense recognized in the statements of operations:</b>		
Current service costs and interest costs	29	61
<b>Recognized loss including other:</b>		
Actuarial losses carried to other comprehensive income	(166)	112
<b>Other movements:</b>		
Benefits paid	(5)	-
Deposits made by the Group	(9)	(19)
<b>Balance at end of year</b>	<b>\$ 159</b>	<b>\$ 310</b>

- 2) Expenses recognized in the statements of operations:

	<b>Year Ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
	<b>U.S. dollars in thousands</b>	
Current service costs	\$ 16	\$ 21
Interest costs	7	6
Transfer of profits to benefits	28	18
Total	<u>\$ 51</u>	<u>\$ 45</u>

- 3) The principal actuarial assumptions as of the report date (based on weighted average):

	<b>December 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
	<b>%</b>	<b>%</b>	<b>%</b>
Discount rate at the end of the year	3.82	2.74	3.35
Future salary growth	3.00	3.27	3.32

**NOTE 8 – CREDIT FACILITY WITH A BANK AND CONVERTIBLE NOTES**

**a. Credit facility with a bank**

In March 2017, the Company received a bank credit line in a total amount of up to \$10 million. The credit line is comprised of a \$6 million long-term loan and a \$4 million credit facility against trade accounts receivable, based on specific customer invoices.

The long-term loan is repayable in equal quarterly installments over three years from the date of the draw and bears annual interest of the quarterly dollar LIBOR rate plus 5.5%. The credit facility bears annual interest of the monthly dollar LIBOR rate plus 4.25%.

On January 30, 2018, the terms of the bank credit line were amended such that the exercise period of the loan and the credit facility were extended until February 28, 2019 and January 12, 2019, respectively. The framework of the long-term loan component was changes so that it can be utilized as a long-term loan or as a short-term loan. In addition, the Company undertook that upon the withdrawal of credit, the balance of the cash in the Company's account with the bank will not be less than 40% of the amount of the outstanding credit actually provided to the Company.

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As part of the bank credit, the Company issued to the bank warrants exercisable into 798,088 of the Company's ordinary shares at an exercise price of NIS 1.36 per share (equivalent to \$0.36 per share as of December 31, 2018) which were initially exercisable until March 28, 2022 (see extension below). The fair value of the warrants was measured using a Black-Scholes valuation model and the cost of \$137 thousand was accounted for as an integral part of the effective interest rate of the bank credit.

On March 12, 2019, the Company and the bank entered into agreement under which the total credit line to be available under the credit facility increased from \$10 million to \$15 million, comprised of: (i) up to \$9 million in long-term or short-term loan; and (ii) up to \$6 million of credit facility against trade accounts receivable. As part of the new agreement, the Company issued to the bank additional warrants exercisable into 399,044 ordinary shares at an exercise price of NIS 1.30 per share (equivalent to \$0.36 per share as of the date of grant), which will be exercisable until March 28, 2023. In addition, the Company extended the exercise period of the original warrants from March 28, 2022 to March 28, 2023. The fair value of the additional warrants was measured using a Black-Scholes valuation model and the cost of \$62 thousand will be accounted for as an integral part of the effective interest rate of the bank credit.

As of December 31, 2018, the Company withdrew \$5.0 million out of the bank credit as follows: \$ 2.25 million as a short-term loan and \$2.75 million as a short-term loan against trade accounts receivable. On February 21, 2019, the Company repaid the above \$5.0 million and withdrew again, in the ordinary course of business, \$5.0 million from the bank credit, as follows: \$2.05 million as a short-term loan and \$2.95 million as a short-term loan against trade accounts receivable. The loans are for a period of three months until May 20, 2019. As mentioned above, the Company undertook that upon the withdrawal of credit, the balance of the cash in the Company's account with the bank will not be less than 40% of the amount of the outstanding credit actually provided to the Company, such that that an amount of \$2 million is not currently available for the Company's current use.

**b. Convertible notes**

In March 2013, the Company issued, NIS 72,256 thousand par value convertible notes listed for trading on the TASE for total net proceeds of \$19.5 million. The notes matured in two principal repayments on February 28, 2017 and on February 28, 2018, and bore fixed interest at 8.65% per annum, payable semi-annually: on August 28 and on February 28, through February 2018.

The net proceeds from the issuance of the convertible notes were split into two components for measurement purposes: (i) a liability component without a conversion feature that is measured at amortized cost according to the effective interest method; and (ii) a conversion option that is an embedded derivative and is measured at fair value at each reporting date.

The effective interest rate as of the date of the issuance was 27.7%. The attributed transaction costs were allocated to the different components pro-rata to the amounts of their initial recognition before allocation of the said costs.

The notes were convertible, so that each NIS 1.92 par value notes could have been converted into one ordinary share (which, as a result of a rights offering conducted by the Company in December 2015, was adjusted such that every 1.92 NIS par value of the notes could be converted to 1.00904 ordinary shares).

On February 28, 2017, the first installment of the notes in a total amount of NIS 38,128 thousand par value (approximately \$10,421 thousand) was repaid and on February 28, 2018, the second and last installment of the notes in a total amount of NIS 38,128 thousand par value (approximately \$10,940 thousand) was repaid, other than NIS 6.0 million (approximately \$1.700 thousand) owed to three shareholders who held notes, of which \$500 thousand was repaid to one shareholder in June 2018 and the balance owed to the other two shareholders was invested by them in the private placement described in Note 14b. None of the notes were converted.

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**NOTE 9 – PROVISIONS**

	<u>Warranties</u>	<u>Returns</u>	<u>Total</u>
	<u>U.S. dollars in thousands</u>		
<b>Balance as of January 1, 2017</b>	\$ 93	\$ 74	\$ 167
Provisions made during the year	135	91	226
Provisions reversed during the year	(27)	-	(27)
Provisions realized during the year	(101)	(82)	(183)
<b>Balance as of December 31, 2017</b>	<u>100</u>	<u>83</u>	<u>183</u>
Provisions made during the year	86	81	167
Provisions reversed during the year	(5)	-	(5)
Provisions realized during the year	(62)	(68)	(130)
<b>Balance as of December 31, 2018</b>	<u>\$ 119</u>	<u>\$ 96</u>	<u>\$ 215</u>

**NOTE 10 – OTHER ACCOUNTS PAYABLE**

	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
	<u>U.S. dollars in thousands</u>	
Employees	\$ 1,403	\$ 1,117
Institutions	319	339
Interest payable	11	326
Deferred revenues and advances from customers	255	193
Other	75	23
	<u>\$ 2,063</u>	<u>\$ 1,998</u>

For information about the Group's exposure to currency and liquidity risks in respect of the payables balances, see Note 20.

**NOTE 11 – DERIVATIVES**

**Composition**

	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
	<u>U.S. dollars in thousands</u>	
<b>Liabilities</b>		
The conversion component in the convertible notes	\$ -	\$ 96
Viola Warrants (non-traded)*	371	2,315
Warrants (Series 4) (traded) issued in the 2015 rights offering*	71	464
	<u>\$ 442</u>	<u>\$ 2,875</u>

\* See Note 14c.

All of the above derivatives have either a conversion price or an exercise price that are denominated in NIS, a currency different than the functional currency of the Company and as a result are accounted for as a derivative financial instrument measured at fair value through profit or loss on each reporting date and constitute a liability.



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The following parameters were used in the calculation of the fair value of the above derivatives, using the binomial model:

	<b>December 31,</b>	
	<b>2018</b>	<b>2017</b>
Discount rate for notes which were fully repaid on February 28, 2018 (yield to maturity of the notes)	-	104.18%
The discount rate of the Viola Warrants and Warrants (Series 4) (risk free interest)	0.30%	0.11%
Share price (in NIS)	1.280	1.340
Standard deviation of the share price	54.59%	56.13%

The fair value of the Viola Warrants and the Warrants (Series 4) (see Note 14c) as of December 31, 2015 and during the nine month period ended September 30, 2016 was measured at quoted market value of the Warrants (Series 4), due to the fact that the Viola Warrants and the Warrants (Series 4) are essentially identical in their conditions. Starting with the fourth quarter of 2016 and until December 31, 2018, the Company believed that there was no active market for the traded Warrants (Series 4) primarily due to an ongoing gradual decline in the frequency and volume of trading in such warrants with significant variance in the transactions prices of the warrants without a corresponding material change in the share price, and often with a negative correlation between the change in the share price and the change in the warrants price. Consequently, the Company estimated the fair value of the Viola Warrants and the Warrants (Series 4) as of December 31, 2016 and for periods thereafter based on observable market data, directly or indirectly, based on the binomial model and based on relevant parameters of the terms of the Viola Warrants and the Warrants (Series 4).

**NOTE 12 – COMMITMENTS**

**a. Obligation to pay royalties to the Israeli Government’s Innovation Authority (“IIA”)**

The Company has received royalty-bearing grants sponsored by the IIA for the support of research and development activities of the Endo PAT3000 product (the development of which was discontinued before its completion with no sales to date). However, according to the IIA, the Company must pay royalties on all sales of all of the Company’s cardiology products, and not only for sales of the Endo PAT3000 and/or its technology, up to the total amount of \$1,046 thousands.

The Company accrued for the royalties’ obligation once the grants became repayable, although the Company is in discussions with the IIA regarding the Company’s obligation to pay royalties on products other than the supported Endo PAT3000.

**b. Lease commitments**

The Group has non-cancelable lease agreements for buildings and vehicles. Minimum lease commitments expected under these operating leases are as follows:

<b>Year Ending December 31,</b>	<b>U.S. dollars in thousands</b>
2019	\$ 847
2020	720
2021	452
2022	54

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Such minimum, lease payments include \$319 thousand, \$333 thousand, and \$181 thousand for the years ending December 31, 2019, 2020 and 2021, respectively, relating to a lease agreement which was extended in January 2019.

See also Note 2u regarding the implementation of IFRS 16 as from January 1, 2019.

**NOTE 13 – INCOME TAXES**

**a. Corporate tax rates in Israel**

The tax rates relevant to corporates in Israel in the years 2016 – 2018 were as follows: 2016 – 25%; 2017 – 24%; 2018 – 23%.

On December 22, 2016, the Knesset (the Israeli parliament) approved the Economic Efficiency Law (Legislative Amendments to Achieve Budget Targets for the 2017 and 2018 Budget Years), 2016, which stipulates, among other things, the reduction of corporate tax rates from 25% to 23% in two phases. The first phase is to a rate of 24%, starting on January 2017 and the second phase is to a rate of 23% starting on January 2018 and thereafter.

**b. Benefits under the Investment Encouragement Law**

*Approved enterprise, benefited enterprise and preferred enterprise*

Most of the production facilities of the Company have been granted “Approved Enterprise”, “Benefited Enterprise” and “Preferred Enterprise” status under the Law for the Encouragement of Capital Investments, 1959 (the “Investment Law”). The Company is a “Foreign Investors’ Company” as defined by the Investment Law, which means it is entitled to tax benefits for taxable income arising from its Approved, Benefited or Preferred Enterprise status.

Since its incorporation the Company incurred significant losses and therefore it did not start benefiting from such status. To be eligible for these tax benefits, one must continue to meet certain conditions stipulated in the Investment Law and its regulations and the criteria set out in the specific certificate of approval. The only material condition applicable to the Company is to meet a minimum threshold (25%) of export sales (i.e., sales outside of Israel). In the event the Company is considered as having failed to comply with these conditions, in whole or in part, the eligibility for the benefits may be canceled and the Company may be required to refund the relevant amount, including inflation adjustments and interest. However, since the Company had accumulated carryforward tax losses of approximately \$111 million as of December 31, 2018 (see section d. below), it did not benefit from such tax benefits and does not expect to benefit from such tax benefits in the foreseeable future. Once the Company utilizes all of its accumulated tax losses, it expects to derive tax benefits in Israel relating to its Benefited Enterprise and Preferred Enterprise programs for which it is eligible.

A company having an Approved or Benefited Enterprise, like the Company, that distributes a dividend from income that was tax exempt, will be required in the tax year of the dividend distribution to pay corporate tax on the amount of the dividend distributed (including the company tax required as a result of the distribution) at the corporate tax rate that would have been applicable to it in the year the income was generated if it had not been exempt from tax.

**c. Taxation of Non-Israeli subsidiaries**

Subsidiaries incorporated outside of Israel are assessed for tax under the tax in their countries of residence. The primary tax rates applicable to the non-Israeli subsidiaries in the Group are:

U.S. – federal tax rate of 35% during 2016 and 2017, and 21% during 2018 and thereafter. The reduction did not have a material impact on the tax expenses of the U.S. subsidiary in the years ended December 31, 2018 and 2017; The Netherlands – tax rate of 20% during 2017 (the year in which the Netherlands subsidiary of the Company was formed) and 2018; Japan – tax rate of 23.4% during 2016 and 2017 and 23.2% during 2018.

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Tax expenses in the statements of operations mainly refer to operations of the subsidiaries in the U.S., the Netherlands and Japan. The Company does not pay taxes in Israel, as it has tax losses carryforward to future years. No deferred tax asset was recognized in respect of those carryforward tax losses, in the absence of expected utilization thereof in the foreseeable future.

The Company did not include a calculation of the theoretical tax due to the fact that the total tax expenses in the statements of operations are not material.

**d. Carryforward tax losses**

The Company has carryforward tax losses (including carryforward research and development expenses) as of December 31, 2018, amounting to \$111 million.

**e. Tax assessment**

The Company has not received final tax assessments since its incorporation. The Company has self-assessments deemed to be final through the 2013 tax year.

**NOTE 14 – EQUITY**

**a. Ordinary shares and additional paid-in capital**

	<b>Year Ended December 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
	<b>Number of shares in thousands</b>		
<b>Issued and outstanding share capital (ordinary shares):</b>			
Outstanding shares at the beginning of the year	264,495	262,917	259,581
Shares issued in private placements during the year	22,014	-	2,976
Shares issued in exercise of stock options during the year	1,107	1,578	360
Outstanding at the end of the year	<u>287,616</u>	<u>264,495</u>	<u>262,917</u>
<b>Authorized</b>	<u>750,000</u>	<u>750,000</u>	<u>750,000</u>

The rights of the ordinary shares include voting rights at the general meeting of shareholders, the rights to receive dividends and rights to participate in the distribution of the surplus assets of the Company in the event of liquidation.

**b. 2018 Private Placement**

On March 22, 2018, the Company entered into separate securities purchase agreements with Viola Growth II A.V. LP, Viola Growth II (A) LP and Viola Growth II (B) LP (collectively, “Viola”), the Company’s largest shareholder; Medtronic International Technology, Inc. (“Medtronic”), a then major shareholder of the Company; Dr. Giora Yaron (through a company wholly owned by him), the Company’s Chairman of the Board of Directors and a major shareholder, and various funds affiliated with three Israeli institutional investors, Yelin Lapidot Mutual Funds Management Ltd., a major shareholder; Meitav Dash Investments Ltd., and The Phoenix Holdings Ltd. On May 27, 2018, following approval by the Company’s shareholders of the private placement contemplated by these securities purchase agreements, the Company completed the transaction and issued to the investors a total of 22,013,893 ordinary shares (representing as of such date approximately 7.7% of the Company’s issued and outstanding shares on a post-issuance basis) at a purchase price of NIS 0.947 per share (equivalent to \$0.27 as of May 7, 2018 ) (reflecting a 7% discount on the average share price during the 15 consecutive trading days preceding March 15, 2018 (inclusive), the date of publication of the Company’s 2017 financial statements), resulting in aggregate proceeds (before expenses) of NIS 20.8 million (equivalent to approximately \$6.0 million). Out of the total NIS 20.8 million investment, Viola, Medtronic and Dr. Giora Yaron, invested NIS 5.2 million, NIS 2.4 million and NIS 2.1 million, respectively. Since then Medtronic transferred the shares issued to it to MS Pace LP, a limited partnership.

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**c. Investment agreement with Viola and the rights offering to the Company's shareholders**

On August 26, 2015, the Company entered into a share purchase agreement with Viola. On November 5, 2015 (and, as a second stage of the transaction, on February 1, 2016), following approval by the Company's shareholders of the transactions contemplated by the share purchase agreement with Viola (the "Viola Transaction"), the Company issued to Viola, in the aggregate for these two closings, 66,876,907 ordinary shares at a purchase price of NIS 1.449 per share (equivalent to \$0.38), resulting in aggregate proceeds (before expenses) of NIS 96.9 million (equivalent to approximately \$25.2 million). In addition, the Company issued to Viola warrants exercisable into up to 33,438,454 ordinary shares (the "Viola Warrants") for no additional consideration. The Viola Warrants are not listed for trading.

The Viola Warrants are exercisable at an exercise price of (i) for the first 21 months following their issuance, NIS 1.642 per share (equivalent to \$0.44 as of December 31, 2018); and (ii) for the remainder of their term, NIS 1.745 per share (equivalent to \$0.47 as of December 31, 2018), in each case, subject to adjustments.

The Viola Warrants expire on the earlier of: (i) the passage of 42 months following their issuance (i.e., on May 4, 2019); (ii) in the event of a public offering with a pre-money valuation of the Company of at least at \$250 million; or (iii) in the event of a merger or sale of the Company which reflects a company value of at least \$250 million and the result of which will be that the shareholders in the Company before said event will hold less than the majority of voting rights in the surviving company.

In December 2015, as part of a rights offering to its shareholders (other than Viola), the Company issued 12,876,303 ordinary shares at a price of NIS 1.449 per share (equivalent to \$0.37), resulting in aggregate proceeds (before expenses) of NIS 18.7 million (equivalent to approximately \$4.7 million). In addition, the Company issued to the subscribing shareholders warrants exercisable into up to 6,438,152 ordinary shares ("Warrants (Series 4)") for no additional consideration. The Warrants (Series 4) were listed on the TASE.

Each Warrant (Series 4) is exercisable at an exercise price of (i) for the first 21 months following their issuance, NIS 1.642 per share (equivalent to \$0.44 as of December 31, 2018) and (ii) for the remainder of their term, NIS 1.745 per share (equivalent to \$0.47 as of December 31, 2018), in each case, subject to adjustments.

The net considerations of the issuance of shares and warrants as part of the Viola Transaction and the rights offering were attributed first to the liability component (warrants) and the remaining amount was attributed to the equity component (shares). The issuance costs, in both transactions, are attributed to the shares, the Viola Warrants and the Warrants (Series 4) according to the consideration attributed to each of the components. The issuance costs were deducted from the consideration attributed to the shares. The issuance costs attributed to the Viola Warrants and the Warrants (Series 4) were immediately credited to the statements of operations as financial expenses.

**NOTE 15 – SHARE-BASED PAYMENTS**

**a. Description of share-based payment arrangements and grants:**

**1) Performance-based options**

Unvested performance-based options as of December 31, 2015 were cancelled and replaced on January 21, 2016 with new grants of options and restricted share units ("RSUs") that are either contingent upon the continued employment only or are also contingent on meeting performance criteria, as detailed in (2) below.

**2) Options and RSUs with service conditions and market conditions**

On January 21, 2016, the Company's Board of Directors approved a new share-based plan for options and RSUs for key employees that will vest on January 21, 2020 (or earlier in case of an acceleration event), if the share price is at least NIS 2.13 (equivalent to \$0.57 as of December 31, 2018) (the "First Trigger Price"), at which time 50% of the RSUs will vest and if the share price is NIS 4.24 (equivalent to \$1.13 as of December 31, 2018), 100% will vest. In the range between these two share prices, a relative quantity will vest. An acceleration event is defined as an event in which all the issued and outstanding share capital of the Company (including by way of a merger in which the Company's shareholders prior to the merger will hold less than 10% of the issued and outstanding share capital and voting rights in the company surviving the merger) is sold for consideration reflecting a price per share that is not lower than NIS 2.13 (equivalent to \$0.57 as of December 31, 2018). The above vesting is also contingent upon continued employment.

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On March 14, 2018, the Company's Board of Directors approved a change of the First Trigger Price from NIS 2.13 (equivalent to \$0.57 as of December 31, 2018) to NIS 1.70 (equivalent to \$0.45 as of December 31, 2018) and a change of the January 21, 2020 vesting date to December 20, 2020. On May 23, 2018 the Company's shareholders approved such changes with respect to the portion of such options and RSUs granted to the Company's President and Chief Executive Officer (the "CEO").

Such change triggered a new measurement of the fair value of the options and the RSUs. The fair value of the above changes was \$239 thousand. The assessment has been executed using a Monte-Carlo Simulation.

**3) Options to key employees, employees and directors with only service condition**

On January 21, 2016, the Company's Board of Directors, as part of the share-based plan described in (2) above, also approved a grant of options that will vest as followed: 25% will vest and become exercisable one year following the date of grant and the remaining 75% will vest and become exercisable in 12 equal quarterly portions, beginning on the first anniversary of the date of grant.

Grants to other employees not participating in the key employees share-based plan, usually vest over four years, as follows: 2/3 will vest and be exercisable two years following the date of grant, and the remaining 1/3 will vest and become exercisable in four equal quarterly portions, at the end of each calendar quarter commencing on the second anniversary of the date of grant.

Options granted to directors during the years ended December 31, 2016, 2017 and 2018, were usually divided into three tranches, each equal to 33% of the amount of options granted. The allotment and the vesting period for the first tranche began on the date of grant; the allotment and the vesting period for the second tranche will begin on first anniversary of the date of grant; and the allotment and the vesting period for the third tranche will begin on the third anniversary of the date grant. Each tranche vests in four equal portions annually over four years. The exercise price for each tranche is set on the date of allotment and is based on the average market price of the ordinary share prior to such allotment date plus 10%. The grants to directors were measured on the grant date for all three tranches using the binomial model. The option data in d. below include only options already allotted.

**4) Grants of options and RSUs under the January 2016 plan**

*Grants in the reported years*

In March 2016, the Company granted to (i) the CEO options exercisable into 3,620,834 ordinary shares in lieu of all the options granted in the past that have not yet vested, and (ii) 16 other employees options exercisable into 3,755,847 ordinary shares in lieu of all the options granted in the past that have not yet vested. In addition, the terms of options exercisable into 741,314 ordinary shares granted in the years ended December 31, 2014 and 2015 to other employees were modified, such that the performance conditions of their exercise were cancelled and their vesting period has been extended. The said replacement was handled as a change in the conditions in accordance with IFRS 2, *Share-based Payment*. The incremental value measured at the date of replacement was not significant. In addition, in March 2016, the Company granted to employees, officers and directors 15,270,957 options and 3,465,761 RSUs.

In May 2016, the Company granted 1,759,999 options to directors.

In September 2016, the Company granted to employees 1,114,129 options and 72,545 RSUs.

In February 2017, the Company granted 711,000 options to 15 employees.

In May 2017, the Company granted 440,000 options to directors and 100,000 options were granted to a consultant.

In September 2017, the Company granted 2,281,218 options and 362,858 RSUs to 11 employees. In addition, 100,000 options were granted to a consultant.

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In March 2018, the Company granted 1,802,512 options and 229,534 RSUs to 20 employees and officers. In addition, 263,681 options and 49,032 RSUs were granted to a consultant.

In August 2018, the Company granted 530,137 options and 17,160 RSUs to 12 employees.

*Grants subsequent to December 31, 2018*

On January 30, 2019, the Company's Board of Directors approved the grant of (i) options exercisable into 1,968,954 ordinary shares at exercise price ranging between NIS 1.30 and NIS 1.43 (equivalent to between \$0.35 and \$ 0.39 as of January 30, 2019) per share, which expire between 2024 and 2026; and (ii) 339,495 performance-based RSUs, to employees of the Company and its U.S. subsidiary. All said RSUs are without an exercise price.

**b. Measurement of fair value of share-based payments**

The fair value of the options with service conditions granted to employees, directors and consultants is measured according to the Black-Scholes valuation model. The fair value of options and RSUs granted to officers and key employees where vesting is made on the basis of the increase in the Company's share price and is measured by implementing the Monte Carlo Simulation. The options granted to directors but which have not yet been allocated, nor set an exercise price, were priced using the binomial model.

Following are the parameters used to measure the fair value on the date of grant of share-based awards during the year ended December 31, 2018:

	<b>Options with service conditions only</b>	<b>Options with service conditions and market conditions</b>	<b>RSUs</b>
The number of shares arising from the exercise of the options (in thousands)	1,313	1,283	296
The parameters included when calculating fair value:			
The share price (at the grant date) (in NIS)	1.10 – 1.25	1.10 – 1.25	1.10 – 1.25
The exercise price (in NIS)	1.12 – 1.29	1.02 – 1.17	0.00 – 0.30
Expected volatility (weighted average)	55% – 58%	55% – 56%	55% – 56%
Expected lifetime (weighted average)	3.5– 4.0 years	4.7– 5.7 years	N/A
Risk-free interest rate	0.91% – 1.13%	1.27% – 1.46%	N/A
Expected dividend rate	0%	0%	0%

The expected volatility was determined based on the historical volatility of the share price. The expected lifetime of the options is determined in accordance with management's estimation of the duration of the employees' holdings of such awards, given their position in the Company and the Company's past experience with respect to employee attrition. The risk-free interest rate is based on interest rates of Israeli government bonds denominated in NIS, whose remaining period is equal to the expected lifetime of the options.

**c. Extension of the exercise period of options granted to the CEO and to officers and key employees of the Company and its subsidiaries**

On March 21, 2017, the Company's Board of Directors resolved to extend by five years, till January 20, 2026, the exercise period of a total of 18,890,695 options, consisting of 3,699,208 options with service conditions and 15,191,487 options with service conditions and market conditions, granted to officers and key employees of the Company and its subsidiaries. There was no change in the other terms of the options, including the exercise price and the vesting terms. The new exercise period is in line with the Company's compensation policy which allows an exercise period of up to ten years. On May 14, 2017 the Company's shareholders approved such extension with respect to the portion of such options granted to the CEO.

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The fair value of the extension of the exercise period of the options was \$475 thousand. The assessment of the fair value of change on the service-based options has been executed using Black-Scholes valuation model. The assessment of the fair value of change on the options with service conditions and market conditions has been executed using a Monte-Carlo Simulation. The assumptions used are detailed below:

	<u>Service options</u>	<u>Performance options</u>
Expected volatility	57.6%	57.6%
Average lifetime (in years)	4.8 – 5.9	8.8
Risk free interest rate	0.91% - 1.36%	2.0%
Expected dividends rate	0%	0%

**d. Reconciliation of outstanding options and RSU's**

The number of options and RSUs and the weighted average exercise price for every option or RSU:

	<u>Year Ended December 31,</u>					
	<u>2018</u>		<u>2017</u>		<u>2016</u>	
	<u>Number of awards</u>	<u>Range of exercise price (NIS)</u>	<u>Number of Awards</u>	<u>Range of exercise price (NIS)</u>	<u>Number of awards</u>	<u>Range of exercise price (NIS)</u>
Outstanding at beginning of year	35,892,484	0.00 – 2.50	40,178,148	0.00 – 2.50	24,316,648	0.10 – 2.50
Granted during the year	3,312,056	0.00 – 1.29	4,105,076	0.00 – 1.68	28,180,067	0.00 – 1.55
Forfeited and expired during the year	(2,305,527)	-	(6,825,690)	-	(11,962,761)	-
Exercised during the year	(1,096,800)	0.23 – 0.51	(1,565,050)	0.23	(355,806)	0.10 - 0.48
Outstanding at end of year	* 35,802,213	0.00 - 2.50	35,892,484	0.00 - 2.50	40,178,148	0.00 - 2.50
Exercisable at end of year	10,114,392	0.23 - 2.50	9,716,559	0.23 - 2.50	12,319,881	0.23 - 2.50
* Including:						
Options with service conditions only	15,661,344					
Options with service conditions and market conditions	16,699,449					
RSUs	3,441,420					
Total	35,802,213					

As a result of the grant of options and RSUs, the Company recorded for the years ended December 31, 2018, 2017 and 2016, a non-cash expense of \$1,021 thousand, \$1,294 thousand and \$1,776 thousand, respectively. The balance of expenditure amounting to \$1,090 thousand will be recorded by the Company over the remaining vesting period of the options and RSUs.

The total share-based compensation expenses relating to all of the Company's share-based awards recognized for the years ended December 31, 2018, 2017 and 2016 were included in items of the consolidated statements of operations, as follows:

	<u>Year Ended December 31,</u>		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
	<u>U.S. dollars in thousands</u>		
Cost of revenues	\$ 10	\$ 9	\$ 30
Selling and marketing expenses	295	336	429
Research and development expenses	104	87	257
General and administrative expense	612	740	1,060
Financial expenses from notes and loans	-	122	-
	<u>\$ 1,021</u>	<u>\$ 1,294</u>	<u>\$ 1,776</u>

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The weighted average share price upon exercise of the options, for options exercised in the year ended December 31, 2018 and 2017 and 2016 was \$0.35, \$0.35 and \$0.34, respectively. The weighted average remaining contractual life of the options outstanding as of December 31, 2018, 2017 and 2016 was 5.74 years, 6.23 years and 4.22 years, respectively.

**NOTE 16 – REVENUES**

The Company operates in one business sector.

The following is a breakdown of revenues according to product groups.

	Year Ended December 31,		
	2018	2017	2016
U.S. dollars in thousands			
WatchPAT and other related services	\$ 22,384	\$ 18,105	\$ 15,697
Endo PAT and other related services	1,805	2,596	2,743
	<u>\$ 24,189</u>	<u>\$ 20,701</u>	<u>\$ 18,440</u>

The following is a breakdown of revenues on the basis of geographical regions (based on the geographical location of the customer).

	Year Ended December 31,		
	2018	2017	2016
U.S. dollars in thousands			
United States and Canada	\$ 17,582	\$ 14,764	\$ 13,343
Japan	3,374	2,965	2,161
Europe	1,885	1,746	1,542
Asia Pacific (excluding Japan)	849	759	1,017
Israel	281	260	268
Others	218	207	109
	<u>\$ 24,189</u>	<u>\$ 20,701</u>	<u>\$ 18,440</u>

The majority of the Company's long lived assets are in Israel.

**Revenue from major customers**

	Year Ended December 31,		
	2018	2017	2016
U.S. dollars in thousands			
Customer A	\$ 4,571	\$ 3,622	\$ 3,549
Customer B	3,229	2,621	2,119
Customer C	2,870	2,510	2,096
	<u>\$ 10,670</u>	<u>\$ 8,753</u>	<u>\$ 7,764</u>



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**NOTE 17 – COST OF REVENUES**

	<b>Year Ended December 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
	<b>U.S. dollars in thousands</b>		
Raw materials, auxiliary materials, subcontractors (including changes in inventories)	\$ 2,538	\$ 1,767	\$ 2,173
Payroll and related expenses (including share-based payment)	1,806	1,956	1,749
Shipping	443	500	386
Depreciation and amortization	255	190	124
Other	684	589	547
	<u>\$ 5,726</u>	<u>\$ 5,002</u>	<u>\$ 4,979</u>

**NOTE 18 – FINANCIAL INCOME AND EXPENSES**

	<b>Year Ended December 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
	<b>U.S. dollars in thousands</b>		
<b>Financial income from cash and investments:</b>			
In respect of investments in bank deposits and marketable securities *	\$ 93	\$ 1,389	\$ 547
Other financial income	151	202	169
	<u>\$ 244</u>	<u>\$ 1,591</u>	<u>\$ 716</u>
<b>Financial expenses from notes, loans and other:</b>			
Convertible notes*	\$ 393	\$ 4,427	\$ 4,610
Short-term bank loan	316	-	-
Short-term shareholders' loans	85	-	-
Other financial expenses	359	427	185
Exchange rate differences	8	30	(35)
	<u>\$ 1,161</u>	<u>\$ 4,884</u>	<u>\$ 4,760</u>
<b>Gain (loss) on derivative financial instruments:</b>			
Gain on revaluation to fair value of the warrants embedded in the convertible notes	\$ 96	2,141	1,567
Gain (loss) on revaluation to fair value of warrants	2,337	1,784	(1,783)
	<u>\$ 2,433</u>	<u>\$ 3,925</u>	<u>\$ (216)</u>

\* Including the effect of changes in the exchange rate of the NIS against the dollar.

**NOTE 19 – LOSS PER SHARE**

**a. Basic loss per share**

The computation of basic loss per share was based on the net loss attributable to ordinary shares divided by the weighted average number of ordinary shares outstanding.

	<b>Year Ended December 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
	<b>U.S. dollars in thousands</b>		
Net loss attributed to the ordinary shares	\$ (1,729)	\$ (5,301)	\$ (14,403)

Weighted average number of ordinary shares

	<b>Year Ended December 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
	<b>Number of shares in thousands</b>		
Balance at the beginning of the year	264,495	262,917	259,581
The effect of private placement and rights offering	12,908	-	2,716
The effect of exercise of options into shares	262	1,192	245
Weighted average number of ordinary shares used in computation of basic loss per share	<u>277,665</u>	<u>264,109</u>	<u>262,542</u>

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**b. Diluted loss per share**

The computation of diluted loss per share was based on the net loss attributed to the ordinary shares divided by the weighted average number of ordinary shares outstanding, after adjustment for all potentially dilutive ordinary shares, as follows:

	<b>Year Ended December 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
	<b>U.S. dollars in thousands</b>		
Net loss used in computation of basic earnings per share	\$ (1,729)	\$ (5,301)	\$ (14,403)
Changes in the fair value of the Viola warrants and Warrants (Series 4), which are classified as a liability	(2,434)	(1,785)	-
Net loss attributed to the ordinary shares (diluted)	<u>\$ (4,163)</u>	<u>\$ (7,086)</u>	<u>\$ (14,403)</u>

Weighted average number of ordinary shares (diluted)

	<b>Year Ended December 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
	<b>Number of shares in thousands</b>		
Weighted average number of ordinary shares used in computation of basic loss per share	277,665	264,109	262,542
Effect of the exercise of the Viola warrants and Warrants (Series 4)	43,246	39,877	-
Weighted average number of ordinary shares used in computation of diluted loss per share	<u>320,911</u>	<u>303,986</u>	<u>262,542</u>

In the calculation of the weighted average number of ordinary shares (diluted) for the year ended December 31, 2018, 3,369,797 shares in respect of convertible notes, 33,438,454 shares in respect of the Viola Warrants, 32,412,199 shares in respect of options and 3,441,420 shares in respect of RSUs granted to employees, directors and consultants were not included, due to their anti-dilutive effect.

In the calculation of the weighted average number of ordinary shares (diluted) for the year ended December 31, 2017, 23,588,582 shares in respect of convertible notes, 32,719,056 shares in respect of options and 3,242,632 shares in respect of RSUs granted to employees, directors and consultants were not included, due to their anti-dilutive effect.

In the calculation of the weighted average number of ordinary shares (diluted) for the year ended December 31, 2016, 40,075,289 shares in respect of convertible notes, 33,438,454 shares in respect of the Viola Warrants, 6,438,152 shares in respect of Warrants (Series 4) and 36,779,259 shares in respect of options and 3,398,889 shares in respect of RSUs granted to employees, directors and consultants were not included, due to their anti-dilutive effect.

**NOTE 20 –FINANCIAL INSTRUMENTS**

This note provides qualitative information regarding the exposure to each of the following risks, and the Group's objectives, policy and processes relating to measurement of such risks. Quantitative disclosure is provided throughout these consolidated financial statements.

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**Credit risk**

As of December 31, 2018 and 2017, the maximum exposure to credit risk is represented by the balance of financial assets. Management has developed policies for the authorization of credit to customers. The accounting exposure to credit risk is monitored constantly according to the behavior of payment of the debtors. Credit is assigned on a customer-by-customer basis and is subject to assessments which consider the customers' payment capacity, as well as past behavior regarding due dates, balances past due and delinquent accounts. Approximately 44%, 42% and 42%, respectively, of the Group's revenues in the years ended December 31, 2018, 2017 and 2016, arise from sales to single customers. Other than this, there are no other concentrations of credit risk.

The Group's revenues are primarily derived from sales to customers in the U.S., Japan and Europe. Management regularly monitors trade receivables and the financial statements include specific provisions for doubtful debt, which properly reflect, in the opinion of management, the inherent loss in debt whose collection is in doubtful.

The Group limits its exposure to credit risk by investing exclusively in bank deposits.

The Group realized its investments in securities at fair value in January and February 2018, close to the date of repayment of the convertible notes. As of December 31, 2017 the investment includes investment in corporate and Israeli government NIS-denominated bonds.

Following is the composition of investments in marketable securities as of December 31, 2017:

	<b>U.S. dollars in thousands</b>
Government bonds – NIS linked to the Israeli CPI	\$ 368
Government bonds – NIS	838
Corporate bonds – NIS linked to the Israeli CPI	1,008
Corporate bonds –NIS	777
Current account	182
	<u>\$ 3,173</u>

The maximum exposure to credit risk in respect of cash and cash equivalents, trade receivables, other accounts receivable and other investments, as of the report date, by geographic locations was as follows:

	<b>December 31,</b>	
	<b>2018</b>	<b>2017</b>
	<b>U.S. dollars in thousands</b>	
Israel	\$ 5,378	\$ 9,581
United States and Canada	6,337	5,815
Asia Pacific (including Japan)	936	817
Europe	998	909
Other	194	27
	<u>\$ 13,843</u>	<u>\$ 17,149</u>

Aging of receivables and impairment and weighted average loss rate:

	<b>Weighted average loss rate</b>	<b>December 31, 2018</b>		<b>December 31, 2017</b>	
		<b>Gross amount</b>	<b>Impairment</b>	<b>Gross amount</b>	<b>Impairment</b>
		<b>U.S. dollars in thousands</b>		<b>U.S. dollars in thousands</b>	
	<b>%</b>				
Not in arrears	1.2	\$ 5,464	\$ 64	\$ 4,502	\$ -
In arrears up to three months	1.2	1,030	12	1,160	-
In arrears up to six months	1.2	221	3	200	35
In arrears up to 12 months	17.5	188	32	71	63
In arrears over 12 months	100.0	159	159	442	442
		<u>\$ 7,062</u>	<u>\$ 270</u>	<u>\$ 6,375</u>	<u>\$ 540</u>

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Movements in the allowance for impairment of receivables during the year were as follows:

	<b>Year Ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
	<b>U.S. dollars in thousands</b>	
Balance at beginning of year	\$ 540	\$ 450
Recognized impairment loss	104	147
Bad debt	(374)	(57)
Balance at end of year	\$ 270	\$ 540

**Liquidity risk**

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group ensures that it has sufficient cash on hand for payment of expected operating expenses, including any amounts required to fulfill financial obligations. In addition to cash flows provided by its operating activities, in order to meet the Company's overall liquidity needs for operations, servicing debt and funding capital expenditures, the Company relies on cost-cutting and operating improvements to optimize capacity utilization and minimizing loss, as well as borrowing under credit facilities, proceeds of debt and equity offerings,

Below is an analysis of contractual maturities of financial liabilities, including estimated interest payments, as of December 31, 2018 and 2017:

	<b>Carrying Amount</b>	<b>Contractual Cash flow</b>	<b>Up to 6 months</b>	<b>6-12 months</b>	<b>1-2 years</b>	<b>2-5 years</b>	<b>Over 5 years</b>
	<b>U.S. dollars in thousands</b>						
<b>December 31, 2018</b>							
<b>Non-derivative financial liabilities</b>							
Short-term bank loans	\$ 5,000	\$ 5,065	\$ 5,065	\$ -	\$ -	\$ -	\$ -
Trade payables	1,517	1,517	1,517	-	-	-	-
Other long-term liabilities	1,052	1,052	-	-	-	-	1,052
Other accounts payable	2,767	2,767	2,668	99	-	-	-
Total	\$ 10,336	\$ 10,401	\$ 9,250	\$ 99	\$ -	\$ -	\$ 1,052
<b>December 31, 2017</b>							
<b>Non-derivative financial liabilities</b>							
Convertible notes, including current maturities and accrued interest	\$ 11,022	\$ 11,473	\$ 11,473	\$ -	\$ -	\$ -	\$ -
Trade payables	1,262	1,262	1,262	-	-	-	-
Other long-term liabilities	948	948	-	-	-	-	948
Other accounts payable	2,714	2,714	2,536	178	-	-	-
Total	\$ 15,946	\$ 16,397	\$ 15,271	\$ 178	\$ -	\$ -	\$ 948

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**Equity Risk**

Changes in the fair value of the Viola Warrants and the Warrants (Series 4) that are denominated in a currency other than the Company's functional currency affect the statements of operations. However, they do not imply any risk or variability in cash flows, considering that through their exercise, the Company will settle the aforementioned derivatives through issuance of its own shares rather than in cash.

As discussed in Note 8b, the convertible notes were fully repaid in February 2018, and, together with the repayment of the notes, the conversion component expired. As to the remaining derivatives being measured at fair value (the Viola Warrants and the Warrants (Series 4), which will expire in May 2019 and their exercise price is substantially higher than the share price as of December 31, 2018), a hypothetical, instantaneous, increase or decrease of 10% in the market price of the Company's share price, with all other variables held constant, is expected to have an immaterial impact on the Company's net loss in 2019.

**Foreign Currency risk**

The Group is exposed to foreign currency risk with respect to sales, purchases, payroll and services expenses and loans denominated in non-dollar currencies (primarily NIS, but also Euro and Japanese yen) used by the companies in the Group. The currencies in which most expenses are denominated are the dollar, NIS, Euro and Japanese yen.

Most of the Group's revenues are denominated in its functional currency (the dollar) and some in Euro, whereas the Group's payroll expenses in Israel are denominated in NIS. Therefore, the Group is exposed to fluctuations in the dollar/NIS and dollar/Euro exchange rates and strives to mitigate currency risk by maintaining liquid investments and cash positions in short-term NIS-denominated deposits, in NIS and in Euro.

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The Group's exposure to the Israeli CPI and foreign currency risk is as follows:

	Currency different from dollar					Non-monetary items	Total
	Dollars	NIS	NIS linked to the Israeli CPI	Euro	Other currencies		
	U.S. dollars in thousands						
<b>December 31, 2018</b>							
<b>Assets</b>							
Cash and cash equivalents	\$ 4,088	\$ 1,885	\$ -	\$ 426	\$ 72	\$ -	\$ 6,471
Trade receivables (including long-term trade receivables)	6,236	229	-	327	-	-	6,792
Accounts receivable	247	32	-	2	-	737	1,018
Inventories	-	-	-	-	-	2,235	2,235
Long-term restricted deposits	109	190	-	-	-	-	299
Long-term prepaid expenses	-	-	-	-	-	66	66
Property and equipment and intangible assets	-	-	-	-	-	1,511	1,511
	<u>10,680</u>	<u>2,336</u>	<u>-</u>	<u>755</u>	<u>72</u>	<u>4,549</u>	<u>18,392</u>
<b>Liabilities</b>							
Trade payables	714	798	-	5	-	-	1,517
Employee benefits	-	-	-	-	-	381	381
Provisions	-	-	-	-	-	215	215
Other accounts payable (including accrued expenses)	1,965	761	-	50	-	321	3,097
Sort-term bank loan	5,000	-	-	-	-	-	5,000
Financial derivatives	-	442	-	-	-	-	442
Other long-term accounts payable	947	105	-	-	-	-	1,052
	<u>8,626</u>	<u>2,106</u>	<u>-</u>	<u>55</u>	<u>-</u>	<u>917</u>	<u>11,704</u>
Total exposure in the statements of financial position in respect of financial assets and financial liabilities	<u>\$ 2,054</u>	<u>\$ 230</u>	<u>\$ -</u>	<u>\$ 700</u>	<u>\$ 72</u>	<u>\$ 3,632</u>	<u>\$ 6,688</u>
<b>December 31, 2017</b>							
<b>Assets</b>							
Cash and cash equivalents	\$ 2,337	\$ 5,124	\$ -	\$ 160	\$ 22	\$ -	\$ 7,643
Marketable securities	-	1,797	1,376	-	-	-	3,173
Trade receivables (including long-term trade receivables)	4,952	194	-	689	-	-	5,835
Accounts receivable	137	45	-	3	-	500	685
Inventories	-	-	-	-	-	2,260	2,260
Long-term restricted deposits	108	205	-	-	-	-	313
Long-term prepaid expenses	-	-	-	-	-	69	69
Property and equipment and intangible assets	-	-	-	-	-	1,299	1,299
	<u>7,534</u>	<u>7,365</u>	<u>1,376</u>	<u>852</u>	<u>22</u>	<u>4,128</u>	<u>21,277</u>
<b>Liabilities</b>							
Trade payables	382	833	-	47	-	-	1,262
Employee benefits	-	-	-	-	-	533	533
Provisions	-	-	-	-	-	183	183
Other accounts payable (including accrued expenses)	1,877	1,117	-	70	-	339	3,403
Convertible notes	-	10,696	-	-	-	-	10,696
Financial derivatives	-	2,875	-	-	-	-	2,875
Other long-term accounts payable	905	-	43	-	-	-	948
	<u>3,164</u>	<u>15,521</u>	<u>43</u>	<u>117</u>	<u>-</u>	<u>1,055</u>	<u>19,900</u>
Total exposure in the statements of financial position in respect of financial assets and financial liabilities	<u>\$ 4,370</u>	<u>\$ (8,156)</u>	<u>\$ 1,333</u>	<u>\$ 735</u>	<u>\$ 22</u>	<u>\$ 3,073</u>	<u>\$ 1,377</u>

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Sensitivity analysis

A stronger dollar against the following currencies at the end of each reporting period, and an increase in the Israeli CPI would have increased (decreased) equity and net income/loss by the following amounts (after-tax). The following analysis is based on changes to exchange rates, which the Group believes to be reasonably possible as of the end of the reported year. This analysis assumes all other variables, especially interest rates, remain constant.

	<b>December 31, 2018</b>	
	<b>Equity</b>	<b>Profit (loss)</b>
	<b>U.S. dollars in thousands</b>	
An increase in the exchange rate of the following currencies against the dollar:		
NIS/dollar by 5%	\$ 12	\$ 12
Euro/dollar by 5%	35	35

The weakening of these currencies against the dollar at a similar rate as of December 31, 2018 had a similar effect, albeit in the opposite direction, assuming that all other variables remain constant.

	<b>December 31, 2017</b>	
	<b>Equity</b>	<b>Profit (loss)</b>
	<b>U.S. dollars in thousands</b>	
An increase in the exchange rate of the following currencies against the dollar:		
NIS/dollar by 5%	\$ (340)	\$ (340)
Euro/dollar by 5%	37	37

The weakening of these currencies against the dollar at a similar rate as of December 31, 2017 had a similar effect, albeit in the opposite direction, assuming that all other variables remain constant.

**Fair value of financial instruments measured at fair value, for disclosure purposes only**

The carrying amount of the cash and cash equivalents, trade receivables, other accounts receivable, bank deposits, pledged deposits, trade payables, and other accounts payable and derivatives is identical or approximate to their fair values due to the lifetime of these items.

The fair value of other financial assets and liabilities and their carrying amounts, as presented in the statements of financial position, are as follows:

	<b>December 31, 2018</b>		<b>December 31, 2017</b>	
	<b>Carrying amount</b>	<b>Fair value</b>	<b>Carrying amount</b>	<b>Fair value</b>
	<b>U.S. dollars in thousands</b>			
<b>Liabilities:</b>				
Convertible notes	\$ -	\$ -	\$ **11,118	\$ *11,283
Liability in respect of royalties to the IIA and other government institutions	1,151	490	1,072	430
	<u>\$ 1,151</u>	<u>\$ 490</u>	<u>\$ 12,190</u>	<u>\$ 11,713</u>

\* Including interest payable, but excluding the fair value of the embedded warrants.

\*\* Quoted market price on the TASE.

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**Fair value hierarchy of financial instruments measured at fair value**

The following table shows an analysis of the financial instruments measured at fair value using the valuation method.

	<b>December 31, 2018</b>		
	<b>Level 1</b>	<b>Level 3</b>	<b>Total</b>
	<b>U.S. dollars in thousands</b>		
Financial instruments - derivative instruments	\$ -	\$ 442	\$ 442

  

	<b>December 31, 2017</b>		
	<b>Level 1</b>	<b>Level 3</b>	<b>Total</b>
	<b>U.S. dollars in thousands</b>		
Financial instruments - marketable securities	\$ 3,173	\$ -	\$ 3,173
Financial instruments - derivative instruments	-	2,875	2,875

The change from the opening balance to the closing balance of the financial instruments measured at fair value, categorized within Level 3 hierarchy, in the years ended December 31, 2018 and 2017, respectively, was caused by the revaluation to fair value of the derivatives in the amount of \$2,433 thousand and \$3,925 thousand as described in Note 18.

**NOTE 21 – RELATED PARTIES**

**a. Compensation**

Compensation to key executives includes:

	<b>Year Ended December 31,</b>					
	<b>2018</b>		<b>2017</b>		<b>2016</b>	
	<b>Number of persons</b>	<b>Amount</b>	<b>Number of persons</b>	<b>Amount</b>	<b>Number of persons</b>	<b>Amount</b>
		<b>U.S. dollars in thousands</b>		<b>U.S. dollars in thousands</b>		<b>U.S. dollars in thousands</b>
Employee compensation	7	\$ 1,835	7	\$ 1,384	6	\$ 1,590
Share-based payment	7	702	7	1,083	6	1,168
		<u>\$ 2,537</u>		<u>\$ 2,467</u>		<u>\$ 2,758</u>

Compensation to directors who are not employed by the Company:

	<b>Year Ended December 31,</b>					
	<b>2018</b>		<b>2017</b>		<b>2016</b>	
	<b>Number of persons</b>	<b>Amount</b>	<b>Number of persons</b>	<b>Amount</b>	<b>Number of persons</b>	<b>Amount</b>
		<b>U.S. dollars in thousands</b>		<b>U.S. dollars in thousands</b>		<b>U.S. dollars in thousands</b>
Total benefits to directors not employed by the Company	8	\$ 284	9	\$ 306	9	\$ 278

	<b>Year Ended December 31,</b>			<b>December 31,</b>	
	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2018</b>	<b>2017</b>
	<b>Transaction amounts</b>			<b>Carrying amount</b>	
	<b>U.S. dollars in thousands</b>			<b>U.S. dollars in thousands</b>	
Key executives (including directors) of the Company	\$ 2,821	\$ 2,773	\$ 3,035	\$ 341	\$ 1,147



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**b. Capital reserve for transactions with shareholders**

Any difference between the nominal value - i.e., the cash amount received - of the loans provided by shareholders, acting in the capacity of shareholders, and their fair value on initial recognition is reflected in equity as a shareholder contribution. Upon an early extinguishment of such debt, any cost incurred as a result of the early extinguishment is reflected in equity as a shareholder distribution.

**c. Insurance and indemnification of key management personnel**

The Company's directors and officers are covered by a directors' and officers' liability insurance policy. In addition, the Company has undertaken to enter into indemnification agreements with each of its directors and officers undertaking to indemnify them to the fullest extent permitted by law.

**d. Marketing agreement with a former controlling shareholder in the Company**

In 2014, the Company entered into a co-marketing agreement with Medtronic, Inc. ("Medtronic") (which at the time was a controlling shareholder) that was subsequently amended in 2015. According to the agreement (as amended), Medtronic was granted exclusive rights to co-market, with the Company, the Company's WatchPAT products within the Company's Total Sleep Solution framework to electrophysiologists (physicians who specialize in cardiology arrhythmias) in the U.S. Pursuant to this agreement, Medtronic markets WatchPAT as part of a comprehensive solution offered by Medtronic to physicians. The agreement is currently renewable automatically for 30 day-periods, unless earlier terminated by either party upon 14 days prior notice.

In the years ended on December 31, 2018, 2017 and 2016, the Company recognized revenues from sales to customers (third parties) under this agreement in the amount of approximately \$207 thousand, \$307 thousand and \$177 thousand, respectively. The total sales commissions to Medtronic in these years under this agreement totaled approximately \$41 thousand, \$61 thousand and \$35 thousand, respectively.

**NOTE 22 – SUBSEQUENT EVENTS:**

**a. 2019 Private Placement**

On January 16, 2019 and January 28, 2019, the Company entered into separate securities purchase agreements with several U.S. and Israeli accredited investors.

Under the securities purchase agreements, the Company undertook to issue to the investors, upon and subject to the closing:, (i) a total of 1,170,707 ADSs, at a price per ADS of \$9.55, to the investors (other than the Israeli investor) (the "U.S. Tranche"); and (ii) a total of 10,944,185 ordinary shares to the Israeli investor, at a price per ordinary share of NIS 1.1693 (equivalent to \$0.32 as of February 3, 2019) (the "Israeli Tranche"), or, in the aggregate, the Company undertook to issue to the investors a total of 46,115,395 ordinary shares (including ordinary shares underlying the ADSs) representing, as of January 28, 2019, approximately 13.8% of the Company's issued and outstanding shares on a post-issuance basis, resulting in aggregate proceeds (before expenses) of approximately \$14.7 million.

The closing of the transaction was subject to listing and other customary conditions, including (i) with respect to the U.S. Tranche, that (a) this registration statement will become effective and (b) the ADSs are eligible for, and have commenced, trading on the Nasdaq Capital Market; and (ii) with respect to the Israeli Tranche, receipt of listing approval by the TASE. On February 3, 2019, the Company completed the private placement of the Israeli Tranche and issued to the Israeli investor, 10,994,185 ordinary shares, and on March 6, 2018, the Company completed the private placement of the U.S. Tranche and issued to the investors under the U.S. Tranche a total of 1,170,707 ADSs.

Pursuant to the securities purchase agreements, the Company agreed, subject to customary exceptions, not to raise additional funds or issue equity securities until the earlier of 180 days following the closing or an initial public offering of its ADSs. In addition, the Company's directors and executive offices have entered into customary lockup agreements, whereby each of them agreed not to sell their ordinary shares from January 16, 2019 until the earlier of (i) 180 days following the closing of the U.S. Tranche, (ii) the termination of the securities purchase agreement, or (iii) ten (10) months following the signing (November 15, 2019).

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The ordinary shares and ADSs issued to the investors are subject to resale restrictions under applicable U.S. and Israeli securities laws. None of the investors were granted registration rights under the securities purchase agreements. The securities purchase agreements contain other customary terms and conditions, including customary representations and warranties of the parties which survive the completion of the transaction until the date on which the investors no longer hold any of the ADSs or shares, as applicable.

**b. Grant of stock options and RSUs**

See Note 15a(4).

**c. Amendment of the bank line of credit**

See Note 8a.

ITEM 19. **EXHIBITS**

<b>Exhibit</b>	<b>Description</b>
<u>1.1#</u>	<u>Memorandum of Association of the Registrant, as amended and restated. (1)</u>
<u>1.2#</u>	<u>Amended and Restated Articles of Association of the Registrant. (2)</u>
<u>2.1</u>	<u>Form of Deposit Agreement between the Registrant, The Bank of New York Mellon as Depository, and owners and holders from time to time of ADSs issued thereunder, including the Form of American Depositary Shares. (3)</u>
<u>2.2</u>	<u>Specimen of Ordinary Share Certificate. (4)</u>
<u>2.3</u>	<u>Closing Warrant Agreement by and between the Registrant and Viola P.E. 2 A.V. Limited Partnership, dated as of November 5, 2015. (5)</u>
<u>2.4##</u>	<u>Warrant Agreement by and between the Registrant and Mizrahi Tefahot Bank Ltd., dated as of May 14, 2017, as amended on July 9, 2017, and as further amended on January 29, 2018. (6)</u>
<u>2.4/A*</u>	<u>Warrant extension agreement by and between the Registrant and Mizrahi Tefahot Bank Ltd., dated March 12, 2019.</u>
<u>2.5#</u>	<u>Form of Warrants (Series 4) issued to certain of the Registrant’s shareholders in connection with the Registrant’s rights offering that was completed on December 29, 2015. (7)</u>
<u>4.1</u>	<u>2007 Israeli Share Option Plan. (8)</u>
<u>4.2</u>	<u>2007 Equity Incentive Plan. (9)</u>
<u>4.3</u>	<u>Israeli Equity Incentive Plan 2016. (10)</u>
<u>4.4</u>	<u>2016 U.S. Equity Incentive Plan. (11)</u>
<u>4.5</u>	<u>Form of Indemnification Letter. (12)</u>
<u>4.6#</u>	<u>Compensation Policy for Executive Officers and Directors. (13)</u>
<u>4.7#</u>	<u>Lease Agreement by and between the Registrant and The Caesarea Edmond Benjamin De Rothschild Assets Corp. (2001) Ltd., dated July 19, 2007, as amended by Amendment No. 1 on December 25, 2008, and as further amended by Amendment No. 2 in 2013, and as further amended by Amendment No. 3 on March 23, 2015, and as further amended by Amendment No. 4 on August 9, 2015, and as further amended by Amendment No. 5 on January 19, 2019. (14)</u>
<u>4.8+</u>	<u>Distribution Agreement by and between the Registrant and Philips Respironics GK, dated February 24, 2014, as amended by the Amendment to the Distribution Agreement, dated December 22, 2018. (15)</u>
<u>4.9+</u>	<u>Master Products and Services Agreement by and between Kaiser Foundation Health Plan, Inc. (“Kaiser”) and Itamar Medical, Inc., a wholly owned subsidiary of the Registrant (“Itamar US”), dated August 16, 2007, as amended by the Amendment to Itamar Medical Agreement between Kaiser and Itamar US, dated August 16, 2009, and as further amended by the Amendment to Itamar Medical Agreement between Kaiser and Itamar US, dated October 16, 2009, and as further amended by the Amendment #3 to Itamar Medical Agreement between Kaiser and Itamar US, dated April 1, 2010, and as further amended by the Amendment #4 to Itamar Medical Agreement between Kaiser and Itamar US, dated February 4, 2013, and as further amended by the Amendment #5 to Itamar Medical Agreement between Kaiser and Itamar US, dated November 1, 2013, and as further amended by the Amendment #6 to Itamar Medical Agreement between Kaiser and Itamar US, dated November 1, 2015, and as further amended by the Amendment #7 to Itamar Medical Agreement between Kaiser and Itamar US, dated June 26, 2017, and as further amended by the Amendment Number Seven (7) to Master Products and Services Agreement between Kaiser and Itamar US, dated November 1, 2018, and as further amended by the Amendment Number Eight (8) to Master Products and Services Agreement between Kaiser and Itamar US, dated January 10, 2019. (16)</u>

- 4.10 Solicitation/Contract/Order for Commercial Items issued by Department of Veterans Affairs (“VA”) to Itamar US, dated October 12, 2011 as amended by the Solicitation/Contract/Order for Commercial Items issued by VA to Itamar US, dated March 12, 2014, and as further amended by the Amendment of Solicitation/Modification of Contract, dated August 1, 2018, and as further amended by the Product Addition Request for Modification Form, dated September 25, 2018, and as further amended by the Amendment of Solicitation/Modification of Contract, dated October 15, 2018, and as further amended by the Amendment of Solicitation/Modification of Contract, dated December 1, 2018. (17)
- 4.11##\* The Secured Debenture issued by the Registrant to Mizrahi Tefahot Bank Ltd. (“Mizrahi”), dated May 28, 2017; the Negative Charge Irrevocable Undertaking issued by I.M.E. 2016 B.V. to Mizrahi, dated May 29, 2017.
- 4.11/A##\* Credit Framework Agreement by and between the Registrant and Mizrahi Tefahot Bank Ltd. (“Mizrahi”), dated March 12, 2019; the Deed of amendment of The Secured Debenture issued by the Registrant to Mizrahi, dated May 28, 2017, dated March 12, 2019; the Continuing Guarantee in an Unlimited Amount to Secure all Debts issued by Itamar US to Mizrahi, dated March 12, 2019; the Unlimited Security Agreement by and between Itamar US and Mizrahi, dated March 12, 2019.
- 4.12 Form of Securities Purchase Agreements, dated March 22, 2018, by and between the Registrant and the Purchasers signatory thereto. (18)
- 4.13 Form of Securities Purchase Agreements, dated January 16, 2019, by and between the Registrant and the Purchasers signatory thereto, for the issuance of ADSs of the Registrant. (19)
- 4.14 Form of Securities Purchase Agreements, dated January 16, 2019, by and between the Registrant and the Purchasers signatory thereto, for the issuance of ordinary shares of the Registrant. (20)
- 4.15 Form of Securities Purchase Agreements, dated January 28, 2019, by and between the Registrant and the Purchasers signatory thereto, for the issuance of ADSs of the Registrant. (21)
- 4.16\* Warrant Agreement by and between the Registrant and Mizrahi Tefahot Bank Ltd., dated as of March 12, 2019.
- 8 List of Subsidiaries of the Registrant. (22)
- 12.1\* Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended
- 12.2\* Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended
- 13.1\*\* Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350
- 13.2\*\* Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350
- 101\* The following financial information from the Registrant’s Annual Report on Form 20-F for the year ended December 31, 2018, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Statements of Financial Position; (ii) Consolidated Statements of Operations; (iii) Consolidated Statements of Comprehensive Income (Loss); (iv) Consolidated Statements of Changes in Equity; (v) Consolidated Statements of Cash Flows; and (vi) Notes to Consolidated Financial Statements, tagged as blocks of text and in detail.

- \* Filed herewith.
- \*\* Furnished herewith.
- # Unofficial English translation from Hebrew original.
- ## Certain parts, as indicated therein, contain unofficial English translation from Hebrew original.
- + Confidential treatment has been granted with respect to certain portions of this exhibit pursuant to 17.C.F.R. §240.24b-2. Omitted portions were filed separately with the SEC.
- (1) Filed as Exhibit 1.1 to the Registrant’s Registration Statement on Form 20-F, filed with the SEC on December 31, 2018, and incorporated herein by reference.
- (2) Filed as Exhibit 1.2 to the Registrant’s Registration Statement on Form 20-F, filed with the SEC on December 31, 2018, and incorporated herein by reference.
- (3) Filed as Exhibit 2.1 to the Registrant’s Registration Statement on Form 20-F, filed with the SEC on December 31, 2018, and incorporated herein by reference.
- (4) Filed as Exhibit 2.2 to the Registrant’s Registration Statement on Form 20-F, filed with the SEC on December 31, 2018, and incorporated herein by reference.
- (5) Filed as Exhibit 2.3 to the Registrant’s Registration Statement on Form 20-F, filed with the SEC on December 31, 2018, and incorporated herein by reference.
- (6) Filed as Exhibit 2.4 to the Registrant’s Registration Statement on Form 20-F, filed with the SEC on December 31, 2018, and incorporated herein by reference.
- (7) Filed as Exhibit 2.5 to the Registrant’s Registration Statement on Form 20-F, filed with the SEC on December 31, 2018, and incorporated herein by reference.
- (8) Filed as Exhibit 4.1 to the Registrant’s Registration Statement on Form 20-F, filed with the SEC on December 31, 2018, and incorporated herein by reference.
- (9) Filed as Exhibit 4.2 to the Registrant’s Registration Statement on Form 20-F, filed with the SEC on December 31, 2018, and incorporated herein by reference.
- (10) Filed as Exhibit 4.3 to the Registrant’s Registration Statement on Form 20-F, filed with the SEC on December 31, 2018, and incorporated herein by reference.
- (11) Filed as Exhibit 4.4 to the Registrant’s Registration Statement on Form 20-F, filed with the SEC on December 31, 2018, and incorporated herein by reference.
- (12) Filed as Exhibit 4.5 to the Registrant’s Registration Statement on Form 20-F, filed with the SEC on December 31, 2018, and incorporated herein by reference.
- (13) Filed as Exhibit 4.6 to the Registrant’s Registration Statement on Form 20-F, filed with the SEC on December 31, 2018, and incorporated herein by reference.
- (14) Filed as Exhibit 4.7 to the Registrant’s Registration Statement on Form 20-F/A, filed with the SEC on January 30, 2019, and incorporated herein by reference.

- (15) Filed as Exhibit 4.8 to the Registrant's Registration Statement on Form 20-F, filed with the SEC on December 31, 2018, and incorporated herein by reference.
- (16) Filed as Exhibit 4.9 to the Registrant's Registration Statement on Form 20-F/A, filed with the SEC on January 30, 2019, and incorporated herein by reference.
- (17) Filed as Exhibit 4.10 to the Registrant's Registration Statement on Form 20-F/A, filed with the SEC on February 13, 2019, and incorporated herein by reference.
- (18) Filed as Exhibit 4.12 to the Registrant's Registration Statement on Form 20-F, filed with the SEC on December 31, 2018, and incorporated herein by reference.
- (19) Filed as Exhibit 4.13 to the Registrant's Registration Statement on Form 20-F/A, filed with the SEC on January 30, 2019, and incorporated herein by reference.
- (20) Filed as Exhibit 4.14 to the Registrant's Registration Statement on Form 20-F/A, filed with the SEC on January 30, 2019, and incorporated herein by reference.
- (21) Filed as Exhibit 4.15 to the Registrant's Registration Statement on Form 20-F/A, filed with the SEC on January 30, 2019, and incorporated herein by reference.
- (22) Filed as Exhibit 8 to the Registrant's Registration Statement on Form 20-F, filed with the SEC on December 31, 2018, and incorporated herein by reference.

**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

ITAMAR MEDICAL LTD.

By: /s/ Gilad Glick

Name: Gilad Glick

Title: President and Chief Executive Officer

Dated: April 10, 2019

March 12, 2019

To  
Mizrahi Tefahot Bank Ltd. ("Holder")

Dear Holder,

RE: Extension of Previous Warrant

Itamar Medical Ltd. (hereinafter: the "**Company**") currently intends to enter into a framework agreement with Holder.

In the framework of the negotiations, and in order to induce Holder to enter into the framework agreement and to extend credit to the Company, Company has agreed to extend the warrant period for all outstanding warrants granted to Holder, as set forth below.

In light of the above, we hereby confirm that, effective as of the date of this letter:

The original Warrant issued to the Holder on **May 14, 2017** is hereby extended until **March 28, 2023** (clause 3.1 to the Warrant Agreement will be amended accordingly).

All other terms and conditions of the abovementioned Warrants shall remain unchanged, in full force and effect.

Sincerely

/s/ Gilad Glick  
/s/ Shy Basson  
Itamar Medical Ltd.

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[INFORMAL ENGLISH TRANSLATION]

**Secured Debenture**

Signed on the 28<sup>th</sup> of May, 2017

By **Itamar Medical Ltd., Company No. 5124343218, of 9 Halamish Street, Caesarea** (hereinafter: the “**Company**”)

For the benefit of Mizrahi Tefahot Bank Ltd. (hereinafter: the “**Bank**”), pursuant to the incorporation documents of the Company and all of the other provisions that provide the Company with power in this regard and pursuant to the resolution of the Company’s board of directors.

Whereas The Company and/or \_\_\_\_\_ Company No. (hereinafter: the “**Debtors**”) have received and/or will receive credit from time to time from the Bank, whether in Israeli currency or any foreign currency, in Israel or outside of Israel, including any revolving credit, temporary credit, non-recurring credit, loan, discounting of deeds, purchase of deeds, brokerage of deeds, overdrafts, provision of guarantee and/or letter of indemnity, opening documentary credit, provision of an extension and various bank leniencies, handling bills of lading, actions with securities, various actions with financial instruments and/or derivatives, service or other payment, provided or that will be provided to a customer or for its deposit, as well as any other transaction or action based on which or following which debts or liabilities will be created or may be created by the Company and/or the Debtors vis-a-vis the Bank, whether as a debtor or guarantor or assignor and/or in another manner, alone or together with others, whether owed or that will be owed, whether they have matured before the engagement under this document or will mature thereafter, whether provided in a special or conditional manner, whether provided directly or indirectly, explicitly or implicitly, as well as other various bank services (hereinafter: all jointly and severally: the “**Bank Services**”), under the terms agreed upon and/or that will be agreed upon from time to time regarding every Bank Service.

And Whereas It has been agreed by the Company and the Bank that the Company will secure all of the debts and liabilities of the Company and/or the Debtors to the Bank of any type or kind, whether in Israeli currency or any other currency and of any kind, as set forth below, by way of this Debenture, and in addition to any collateral that is provided and/or will be provided to the Bank.

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Therefore, this Debenture attests to the following:

1. a. This Debenture has been issued to secure the full and precise payment of all of the amounts, whether in Israeli shekels or any foreign currency, owed and that will be owed to the Bank by the Company and/or the Debtors in any way, form, manner and for any reason, whether the amounts are owed by the Company and/or the Debtors in connection with the provision of the Bank Services or are not in connection with the same, whether they are owed from the Company and/or the Debtors alone or together with others, whether the Company and/or the Debtors have already undertaken therewith or will undertake therewith in the future, as a Debtor and/or guarantor and/or assignor or otherwise (including liability of the Company and/or the Debtors under the deeds provided or that will be provided to the Bank, whether by the Company and/or the Debtors or by third parties for discounting or security, and/or under any other debt of the Company and/or the Debtors vis-a-vis the Bank), owed and/or that will be owed in the future, which is payable before the exercise of the collateral provided hereby or subsequently, owed absolutely or conditionally, owed directly or indirectly, owed pursuant to the original undertaking of the Company and/or the Debtors or formed in a judgment of a court or otherwise -

**b. The total amount that we will be required to pay the Bank under this Debenture is unlimited in amount.**

All of the expenses and charges in connection with the preparation of this Debenture and its registration with the appropriate registrar, as well as all of the expenses involved in the exercise of this Debenture and its realization, including reminders and warnings of arrears, reimbursements of charges, letters, assessments, insurance, security, maintenance and repair of the Pledged Assets as defined below, notices and various approvals, attorney fees, legal and execution fees, the appointment of a receiver and/or manager and/or liquidators and their wages, expenses involved in locating the address of the Company and/or the Debtors, as the case may be, and any other reasonable expense involved in the exercise of this Debenture and its realization, which the Bank could not prevent using reasonable measures, will apply to the Company and/or the Debtors, as the case may be, and will be paid by them, together with interest as set forth in the "Credit to a Business/Private Customer Packet" or at the rate agreed upon in the Provision of Bank Services Agreement, as of the date of the request and until the full clearance or as determined by the competent judicial authority. This Debenture will also be used to secure all of the aforesaid amounts in this paragraph, which will be added to the amount of the Debenture, as defined above in this Section 2, and all of its subsections until the full payment thereof, even if all of the aforesaid expenses and charges are also secured under this Debenture.

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(All of the amounts above that are secured under this Debenture will be hereinafter: the “**Secured Amounts**”).

2. The Company hereby undertakes to pay the Bank any amount from the Secured Amounts:
    - a. On the agreed payment date, if agreed by the Bank and the Company and/or the Debtors that the same amount will be payable on a specific date.
    - b. At the end of seven days from the date on which the Bank’s first written request is sent to the Company, if no payment date is agreed upon as stated in paragraph (a) above.
  3.
    - a. Unless the same is explicitly permitted in a specific credit agreement or the “Credit to a Business Customer” packet, the Bank may choose not to accept prepayment of the Secured Amounts or any part thereof, before they are due to be paid, and the Company or any party whose right may be impaired by the granting or realization of this Debenture, will not have a right under Section 13(b) of the Pledge Law, 1967 or any other law.
    - b. In any case in which the Company and/or the Debtors do not have the right to repay the Secured Amounts early under any agreement, administrative instruction from a competent government authority or the law, the Company and/or the Debtors may do so only subject to the Bank’s prior written consent to the same, and under the conditions set forth in this regard by the Bank. The Bank may condition its consent on payment of a fee and/or fine and/or any other payment, as well as determine the date on which the early payment will take place. In the case of early repayment, the interest and/or linkage differentials and/or exchange rate differentials will be calculated, as the case may be, up to the actual payment date. For the avoidance of doubt, it is hereby clarified and emphasized that the above does not and will not impair or detract from the Bank’s right to call for immediate repayment any Secured Amount under the Debenture pursuant to the agreements between the Bank and the Company.
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4.
    - a. The Bank may calculate interest on the Secured Amounts at the rate agreed upon or that will be agreed upon from time to time between it and the Company and/or the Debtors, as the case may be. In cases in which the interest rate is not agreed upon, the Bank may determine the interest rate and inform the Company or Debtors of the same, as the case may be. The Company and/or the Debtors will be charged the aforesaid interest rates and the Bank may attach them to the principal at the end of every three months or at the end of any other period, as determined by the Bank.
    - b. In any case of arrears in payment of the Secured Amounts or part thereof, the Secured Amounts will bear arrears interest in the rate set forth in the Business Credit Booklet or at the rate agreed upon in the Provision of Bank Services Agreement.
    - c. In any case that grants the Bank the right to exercise the collateral under this Debenture, the Bank may increase the interest rates of the Secured Amounts until the arrears interest rate, as set forth in the Business Credit Booklet or the rate agreed upon in the Provision of Bank Services Agreement.
  5. To secure the full and precise repayment of all of the Secured Amounts, the Company hereby pledges to the Bank and its substitutes.
    - a. With a first-ranked floating charge, any enterprise, equipment, assets, funds, property and rights, including their profits, of any type without exception, that the Company has currently and will have in the future, at any time, in any form and manner, including all of the existing and/or future rights of the Company, for the receipt of funds from its customers and/or from any other entity, including its insurance rights for them, for all of the above assets and rights, and all of the rights under the Property Tax and Damages Fund Law, 1961, and any right to damages or indemnification that the Company shall have vis-à-vis a third party for loss, damage or the expropriation of property or any part thereof (hereinafter: the "**Pledged Assets**").
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- b. A first-ranked fixed pledge and a lien on its goodwill, as it is currently and as it may be at any time (hereinafter: the “**Pledged Goodwill**”).
  - c. A first-ranked fixed pledge and lien on the equipment, assets and the income from the assets and their profits, set forth on the list attached to this Debenture, marked “A” and constituting an integral part hereof (hereinafter: the “**Fixed and Pledged Property**”).
  - d. A first-ranking fixed pledge on all of the rights, including the intellectual property rights, of the Company, as set forth in Appendix A1 of the Debentures and including as set forth in Appendix A2 (hereinafter: the “**Pledged Intellectual Property Rights**”).
  - e. A first-ranking fixed pledge of all of the Company’s rights to receive funds as set forth in Appendix B of the Debenture. (hereinafter: the “**Right to Receive Funds**”).
  - f. A first-ranked fixed pledge on the Company’s holdings in **Itamar Medical Inc. and I.M.E (2016) B.V.** and all of the Company’s rights in connection with the above holdings.
  - g. A fixed pledge and a charge on the bills of lading - marine or by air - ownership certificates of merchandise, storage certificates, merchandise delivery certificates, orders, letters of documentary credit, receipts or other documents customary in international trade and testifying to ownership or goods or merchandise (hereinafter: the “Documents”), which will be provided from time to time to the Bank, for collection, for safekeeping, security or otherwise, including all of the insurance rights of any type or kind vis-à-vis B.S.S.CH. - The Israel Credit Insurance Company Ltd. or any other insurance company, as well as any right to compensation or indemnification that the Company may have vis-à-vis third parties for loss, damage, or expropriation of merchandise or goods - upon their delivery to the Bank as stated, they shall be considered to be pledged and charged for the Bank as a first-ranking pledge and charge under the terms of this Debenture and its provisions.
  - h. A fixed pledge and charge on all of the securities, documents, pledges of others that the Company has provided or will provide from time to time to the Bank for collection, safekeeping, security or otherwise (hereinafter: the “**Pledged Documents**”) and upon the delivery thereof, they will be considered to be pledged and charged to the Bank as a first-ranking pledge and charge under the terms of this Debenture, and its provisions, *mutatis mutandis*, will apply to their pledge and charge.
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The Bank will be exempt from taking any action in connection with the Pledged Documents and will not be liable for any damage that is caused in connection with the same, and the Company undertakes to indemnify the Bank in any case in which the Bank is sued for such damage by others. The Company hereby waives in advance any claims of prescription regarding the Pledged Documents.

- i. A charge and first-ranking pledge and assignment by way of pledge on all of the rights of the Company in Account No. 250888 at the Orot Mall Branch (438) (hereinafter: the “**Pledged Account**”), including all of the rights of the Company to the funds and/or deposits and/or assets deposited and/or that will be deposited and/or located in the Account, as well as the income, profits and consideration that the Company may have for and in connection with the Account (hereinafter: the “**Pledged Rights**”).
  - j. The “Pledged Assets,” the “Pledged Goodwill,” the “Documents,” and the “Pledged Documents,” “Fixed and Pledged Assets,” “Pledged Intellectual Property Rights,” “Rights to Receive Funds,” the “Pledged Account,” the “Pledged Rights,” and any other pledge noted in this section will be hereinafter: the “Pledged Property.”
6. The Company hereby declares as follows:
- a. That the Pledged Property is not pledged, nor is there a lien in favor of others, nor is it subject to an attachment in any manner, other than as set forth in the report of the Registrar of Companies dated \_\_\_\_\_, attached hereto.
  - b. That the Pledged Property is under its sole ownership and possession or possessed by the Bank.
  - c. That there is no limitation or condition under law or agreement or otherwise, applicable to the transfer of the Pledged Property or it being subjugated to a pledge or lien.
  - d. That it may pledge or charge the Pledged Property in any manner and form.
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- e. That no assignment of a right or other action was performed that derogates from the value of the Pledged Property.
- f. That it and/or the Pledged Property complies and will comply with the requirements and/or provisions of any law and/or agreement.
- g. That it is not aware of the existence of environmental hazards as defined in Section 26(d) below in the Pledged Property, and to the best of its knowledge, no demand was received from the relevant authorities and/or any other entity for the same in connection with environmental hazards.

7. The Company hereby undertakes vis-à-vis the Bank as follows:

- a. Not to pledge, not to charge, including at an inferior level than the Bank, not to sell, not to lease, not to lease long-term, not to transfer the Pledged Property, not to provide and/or transfer possession of the Pledged Property, and not to perform any action with the Pledged Property or provide any person or entity with any right to the Pledged Property, which may (by action or right) harm the rights of the Bank under this Debenture and/or under any agreement formed and/or that will be formed between the Bank and the Company, all unless the Bank's prior written consent to the same is received. The Bank will not unreasonably refuse at the Company's request to provide its consent as stated.
  - b. The Company declares that the Pledged Property is in working condition. The Company undertakes to protect the Pledged Property as well as to keep the Pledged Property in working condition and to make, from time to time, the necessary repairs for its proper maintenance and to ensure that it is fit for use, and not to make changes or demolish a structure or part of a structure, and not to uproot any underground fittings without the Bank's prior written consent. The Bank and its representatives will have the right to visit, at any time, the Pledged Property in order to examine its condition. In any case of material damage or material defect to the Pledged Property which may impact the value of the Pledged Property as a security, the Company undertakes to notify the Bank of the same within a reasonable period of time. In the event that the Company does not perform the repairs required in the Pledged Property within a reasonable period of time from the occurrence of the damage or the defect, considering the type and nature of the damage or defect, the Bank may execute the repairs as it sees fit, at the Company's expense, provided that the damage or defect is material in the Pledged Property, and may impact the value of the Pledged Property as a collateral. The Company undertakes to reimburse the Bank, immediately upon the Bank's request, for all of the expenses that the Bank has or will have in connection with the aforesaid repairs, in addition to lawful interest and linkage differentials as of the date on which the amounts are incurred by the Bank and until the actual full repayment thereof by the Company. All of the aforesaid expenses and the interest and linkage differentials on the same will be secured under this Debenture and will be subject to the Secured Amounts.
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- c. To immediately notify the Bank of any case of the imposition of an attachment on the Pledged Property and/or the Pledged Assets and/or any part thereof and to immediately notify the attachor of the pledge for the benefit of the Bank and, at the Company's expense, immediately and without delay, to use all means for the removal of the attachment. In the event that the Company does not take measures as stated, the Bank may (but is not required to) use all of the means to remove the attachment, and the Company will be required to immediately pay the Bank all of the expenses involved in the same (including the fees of the Bank's attorneys).
  - d. To be responsible for the accuracy and correctness of all of the signatures, assignments and details on deeds, documents and securities that are provided and/or will be provided to the Bank as collateral.
  - e. To pay, on time, all of the taxes, fees, all of the compulsory payments, various types of property tax, the lease fees and all of the other payments applicable from time to time on the Pledged Property or the Company for the Pledged Property, including insurance fees as stated in Sections 10(a) and/or 10(b) below. The Company hereby confirms and declares that it has made the payments as stated that are applicable by the signing date of this Debenture. The Company will provide the Bank, immediately upon its first request, all of the receipts and approvals related to the same payments. Without derogating from any of the Bank's rights, in the event that the Company has not made any of the payments applicable thereto, the non-payment of which may cause material damage to the Bank, the Bank may but is not required to pay the same in its place and at the Company's expense, provided that the Company is notified 15 days in advance of its intention to do so, excluding in cases of particular urgency on the date of the execution of the payment, in which the failure to make the payment immediately may cause material damage to the Bank. The Company undertakes to reimburse the Bank for the payment immediately upon the Bank's first request, together with lawful interest and linkage differentials, as of the date on which it was paid by the Bank and until the full repayment thereof by the Company. All of the aforesaid expenses and payments above, including the interest on the same, will be secured under this Debenture and will be subject to the Secured Amounts.
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Without derogating from the above, the Company hereby declares and undertakes as follows:

- f. That it alone will be liable, including vis-à-vis any person, company, entity, government authority, or any third party in connection with the Pledged Property, whether directly or indirectly, including regarding matters related to environmental hazards, and it agrees that the Bank will not bear any liability in connection with the same. The Company will bear all of the expenses, damages, costs, claims and demands in connection with the Pledged Property and will indemnify the Bank for the entire amount that the Bank is required to pay for the same, if charged.
  - g. That it will immediately report to the Bank regarding the existence of environmental hazards, and regarding any demand that will be directed thereto in connection with the same, and that it will handle them in accordance with the provisions of the law and the relevant authorities, without derogating from any other undertaking under any agreement and/or under law.
  - h. Without derogating from the generality of the above, the Company declares that it is aware that all of the demands made and/or that will be made by the Bank in connection with the environmental defects related to the Company and/or the Pledged Property are intended only to secure the credit that the Bank provides and to secure the value of the Pledged Property, and that the Bank will not be liable vis-à-vis it or any other person, company, entity, government authority or third party, with any liability, in connection with the same. The Company further declares that it is aware that the Bank is not responsible for reliance that may be generated for it or any third party as a result of these requirements, and it exempts the Bank from any liability in connection with the same.
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- i. To manage accounting records and to permit the Bank or a representative on its behalf, at any time, to examine the books. The Company undertakes to assist the Bank or its representatives and to provide them, at their first request, with balance sheets, documents, and any information required thereby, including explanations in connection with the financial and operating condition of the Company and/or its business.
  - j. It is agreed that no change in control in the Company, compared to the condition existing on the signing date of this Debenture without the Bank's prior written consent will constitute grounds for immediate repayment. "Control" - as defined in the Securities Law, 1968, as well as a state in which an entity from the Viola Fund Group ceases to be the sole controlling shareholder of the Company.  
  
The Company will report to the Bank upon being made aware of the change of control as stated, and insofar as the change of control is not approved by the Bank, the Bank will have grounds to call for immediate repayment.
  - k. The Company is the owner of all of the intellectual property required by the Company for the purpose of its business (excluding standard shelf products) and there is no agreement based on which the intellectual property will be transferred to a third party.
  - l. To the best of its knowledge, the Company does not currently infringe and there is no proceeding against it in connection with the infringement of intellectual property rights of a third party.
  - m. A full list of all of the intellectual property is attached as Appendix A2, and the Company will provide the Bank, in writing, with any update and/or change that will be made in the aforesaid list. Additionally, the Company will update the list of active customers every six months (customers with a positive balance or customers with which there were transactions during the past 12 months). Following the Company's above reports, an update will be made to the pledges in the relevant registrars, and the Company will sign all of the documents accepted in connection with the same.
  - n. Without derogating from the other grounds for calling for immediate repayment in accordance with any document, it is agreed that there is if a license, consent, approval or record of any of the Company's intellectual property rights is retracted, cancelled, suspended, or impaired and the same has a materially adverse impact on the Company, the Bank may call for immediate repayment the Secured Amounts or any part thereof.
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8. During the entire term of this Debenture, the Company undertakes as follows:
- a. Not to demand its share capital that was issued and is not yet repaid, in whole or in part, or accept payments thereon without the Bank's written consent, and if any amounts are paid on account of the aforesaid share principal of the Company, without or without the Bank's consent, the same amounts will be transferred immediately to the Bank and used as payment on account of the Company's debts to the Bank.
  - b. Not to pay its shareholders in any form or manner any loan or funds that the shareholders have lent or will lend to the Company or any funds that the aforesaid have invested and/or will invest in the Company. The above will not apply to a loan that is convertible to shares of the Company, which will be repaid by way of the allocation of shares.
  - c. Not to provide its shareholders with any loan or any credit, not to guarantee for them and/or provide them with collateral without the Bank's prior written consent.
  - d. To ensure that the shareholders that lent and/or will lend funds to the Company will undertake vis-à-vis the Bank not to demand and not to claim any funds as stated from the Company, and if for any reason, they still receive amounts from the Company - to reimburse the aforesaid amounts to the Bank in order to use them for the repayment of the Secured Amounts.
  - e. Not to purchase its shares and not to pay any dividend without the Bank's prior written consent.
9. a. The Company undertakes to ensure and provide the Bank, no later than the date of the provision of the credit, with a copy of an insurance policy based on which it has insured the Pledged Property with property insurance and against any other risk demanded by the Bank, with the same insurance company, in the same amount and under the same conditions to which the Bank has agreed - all subject to the law and in accordance with the instructions of Bank of Israel. The policy will contain, *inter alia*, a section of pledges for the benefit of the Bank, as well as a section known as a "30 days advance notice of cancellation clause." The Company hereby undertakes to continue to insure the Pledged Property as stated above, as long as the Credit is not repaid to the Bank in full, to pay all of the premiums on time and to provide the Bank, at its first request, with insurance certificates and references in writing of the execution of the insurance payments.
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- b. In each of the cases listed below, the Bank may, at its sole discretion, insure the Pledged Property on behalf of the Bank and charge the Account of the Company and/or the Debtors, as the case may be, for the insurance fee expenses. Amounts that are paid as expenses and insurance fees as stated will be secured based on this Debenture.
- (1) If the Pledged Property is not insured to the satisfaction of the Bank.
  - (2) If the Company does not provide the Bank, by the date of the provision of the credit, with insurance certificates for the Pledged Property, to the satisfaction of the Bank.
  - (3) If 30 days prior to the end of the insurance term of the Pledged Property, the Company does not provide the Bank with insurance certificates of the Pledged Property under the conditions and for the period to its satisfaction. In the case in which the insurance is made by the Bank as stated above, the Bank will not be responsible for a defect or flaw that arises in connection with the insurance. Amounts that will be paid as expenses and insurance fees as stated will be secured under this Debenture.
- c. All of the rights arising from property insurance as stated above, including rights under the Property Tax and Damages Fund Law, 5721-1961, as it may be in force from time to time or under any other law, whether transferred to the Bank as stated above or otherwise, are hereby pledged for the Bank with a first-ranking fixed pledge and as a lien.
- d. The Company undertakes to notify the Bank and the insurance company, immediately, of any damage to the Pledged Property that may entitle it to insurance payments, whether the insurance was made by the Company or by the Bank. The Bank may sue from the insurance company for the exercise of the right to insurance payments in accordance with Sections 9, 20 and 22 of the Pledge Law, 1967 and/or any other law that shall replace or amend it.
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- e. The Company undertakes to sign, at the first request of the Bank, all of the requests, documents, and certificates that are required or desirable for the execution of the undertakings of the Company that are included in this section. Additionally, the Company undertakes not to cancel or change in any manner any of the aforesaid insurance terms without the Bank's prior written consent.
- 10.
- a. The collateral provided to the Bank under this Debenture shall be of a continuous nature despite the arrangement of accounts or any account of the Company and/or Debtors and will remain in force until the Bank confirms in writing that this Debenture has terminated.
  - b. Where the Bank was or will be provided with collateral or guarantees for payment of the Secured Amounts, all of the collateral and guarantees will be independent of each other.
  - c. Where the Bank will settle or provide an extension or easement to the Company, the Bank will change the undertakings of the Company in connection with the Secured Amounts, will release or waive the other securities or guarantees - these will not change the nature of the collateral utilized under this Debenture, and all of the securities and undertakings of the Company under this Debenture will remain in full force.
11. **Rights of the Bank**
- a. In this section - "Asset" - Of any type or kind, including funds, in Israel currency or foreign currency, securities and rights, and including funds that the State or any other entity has provided or will provide to the Bank in any manner for the Company, as well as including an asset as stated that is provided and/or will be provided by the Company or for it to the Bank for collection and/or safekeeping and/or as a security and/or in any other manner, including the consideration for the same assets.
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- b. The Bank will have a lien right on any asset owed and/or that will be owed to the Company from the Bank in any manner and from any source, and in any account, whether the account is registered in the name of the Company alone or in the name of the Company together with others, as well as assets that are and/or will be held by the Bank for the Company at any time, and the Bank any, at any time required in the opinion of the Bank to maintain its rights, based on its experience, as reasonable under the circumstances, notify the Company of the same in advance, withhold an asset as stated until the clearance of all of the amounts of money owed or that will be owed to the Bank from the Company and that are not yet cleared from the Secured Amounts. With regard to amounts that are not yet due to be paid, the Bank may operate its right under this section as stated above, only where there is a reasonable concern that the Company and/or the Debtors, as the case may be, will not meet their undertakings vis-à-vis the Bank.
- c. The Bank will have the right to prevent the Company from withdrawing credit balances that are available thereto in any account, whether the account is registered in the name of the Company alone or in the name of the Company together with others, as well as credit balances that are and/or will be in the possession of the Bank for the Company at any time, while the Company and/or the Debtors owe funds to the Bank and the Bank believes that the withdrawal of the aforesaid credit balances may harm the Bank's rights.
- d. Without derogating from the above, the Bank may offset, at any time, any credit balance of the Company (as set forth in Section 11.3 above) against the Secured Amounts whose payment dates have elapsed, including following the calling for immediate repayment, and the credit balance will be used for the clearance of the Secured Amounts. The Bank will make an attempt, insofar as reasonable under the circumstances, to notify the Company of the same in advance. In order to execute the above, the Bank may take all of the legal or other measures as the Bank shall deem fit under the circumstances.

Additionally, the Bank may redeem deposits of the Company that have not yet matured while offsetting them against the Secured Amounts whose payment dates have elapsed, including following calling for immediate repayment in accordance with the terms of any agreement between the Company and the Bank. The Company is aware that in such a case, adverse changes may occur to the Company regarding its rights for the same deposit, such as for loss of interest and loss of a right to grants and the Company will not have any claim against the Bank in this regard.

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12.

- a. Any amount of money that is cleared for the Bank on account of credit and/or an amount that the Bank charges the Account of the Company and/or the Debtors for credit, will be charged for the credit of the Credit Account with the following order of priorities: first for the clearance of the expenses incurred as a result of the exercise of this pledge, and thereafter for the clearance of the other expenses, bank charges, and interest that are owed to the Bank, including additional amounts following linkage of the interest, and subsequently for clearance on account of the principal of the credit for amounts that are due to be paid, including additional amounts for linkage of the principal of the credit.
- b. Subject to subsection a above, the Bank may, at any time, at its discretion:
  1. Charge any account of the Company for any amount owed from the Company and/or the Debtors to the Bank.
  2. If necessary, transfer any amount provided for the benefit of the Company in any account, to any other account.

13. Considering that the amounts owed and that will be owed to the Bank from the Company and/or the Debtors on account of the Secured Amounts may be both in Israeli currency or in foreign currency, it is hereby declared and agreed that the Bank and the Receiver - as the case may be - may convert Israeli currency that is provided to them to foreign currency required for the full or partial clearance of the Secured Amount owed to the Bank in foreign currency, and convert foreign currency provided to them to Israeli currency, in accordance with the maximum rate for transfers and assignments existing at the Bank upon the purchaser, which is required for the clearance of any amount, or to sell any foreign currency of the Customer in accordance with the minimum rate for transfers and assignments existing at the Bank upon the sale, and to use the consideration from the sale for the purchase of a different foreign currency at which the credit is provided, which will be required for the clearance of any amount. Any purchase or sale as stated will be made (if any) from the amounts in foreign currency or amounts in Israeli currency that are available at the Bank for the benefit of the Company and/or the Debtors, or that are received from the collateral.

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14. a. In each of the cases granting the Bank a right to call the Secured Amounts for immediate repayment, based on any document signed and/or that will be signed by the Company and/or the Debtors, the Bank may use any means that it deems fit, subject to any law, in order to collect all of the Secured Amounts, exercise the collateral in any manner permitted by law and exercise all of its rights under this Debenture, including the exercise of the Pledged Property, in whole or in part, and use the redemption thereof to clear the Secured Amounts, without the Bank being required to exercise guarantees or other collateral, if any exists at the Bank. Additionally, the Bank may take, at the Bank's discretion, any remedy allocated and/or granted to the Bank under any agreement or law, including enforcement or termination, in whole or in part, of any agreement between the Bank and the Company and/or the Debtors and/or the receipt of damages from the Company and/or the Debtors.

For the avoidance of doubt, it is clarified that the immediate repayment of the Secured Amounts will be made in accordance with the agreements signed by the Company and the Bank.

- b. In addition to the provisions of subsection (a) above, the Company will pay the Bank, as liquidated damages assessed in advance, for any loss or damage incurred to the Bank as a result of calling from immediate repayment - an amount equal to the total of all of the amounts that the Bank typically collects as early repayment, as may be customary from time to time at the Bank, or an amount that the Bank is permitted to collect as an early repayment fee under law and/or based on the instructions of Bank of Israel, whichever is higher.
- c. Any receiver and/or special manager and/or business manager and/or liquidator and/or trustee appointed at the request of the Bank, in cases as stated in Section 14(a) above, may, *inter alia*, and subject to the approval of the court, Execution Bureau, or any other competent authority:
- (1) Take possession of the Pledged Property, in whole or in part.
  - (2) Manage the business of the Company or participate in its conduct as it deems fit.
  - (3) Sell or lease and/or agree to sell or lease the Pledged Property in whole or in part or transfer it in any other manner under the conditions as it sees fit.
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(4) Make any other arrangement regarding the Pledged Property, in whole or in part.

15. All of the income received by the Receiver and the manager from the Pledged Property and any consideration received by the Bank and/or by the Receiver and the manager from the sale of the Pledged Property or part thereof will be charged:
- a. First for the clearance of all of the expenses incurred in connection with the collection of the Secured Amounts, including expenses of the Receiver or the Receiver and manager, and its fees in the rate determined by the Bank.
  - b. Second, for the clearance of the additional amounts owed to the Bank following the terms of linkage, interest, damages, fees and expenses owed or that will be owed to the Bank under this Debenture.
  - c. Third, to clear the principal of the Secured Amounts.

16. In the case in which, upon the exercise of the Pledged Property, the payment date of the Secured Amounts has not yet elapsed, or the Secured Amounts will be owed to the Bank conditionally only, the Bank may collect, from the redemption of the exercise, an amount sufficient to cover the Secured Amounts, and the amount that will be collected will be pledged to the Bank to secure them, and will be held by the Bank until the clearance thereof.

The provision of the pledge under this deed will not derogate from or detract from the rights of the Bank and/or undertaking of the Company under other documents, of any kind, which were signed and/or will be signed by the Company vis-à-vis the Bank.

17. Where either of the parties does not use, in a particular case, any of its rights under this Debenture, the same will not be considered to be a waiver on its part of the same rights, regarding the specific case, or regarding cases that occur subsequently. No waiver or settlement, including regarding the payment dates, will be valid unless provided in writing.

No waiver that the Bank provides to any party to a deed held by the Bank under this Debenture will impact the undertakings of the Company in any form or manner.

18. Deleted.
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19. The Bank Records and its Accounts will serve as admissible evidence against the Company for all of the details thereof, and *inter alia*, with respect to the calculation of the Secured Amounts, the details of the deeds and guarantees and the other securities, and any other matter related to this Debenture.

The term “**Bank Records**” shall mean - including any book, registrar, account statement, microfiche, copy or photocopy of an account statement, contract, letter of undertaking, deed, data card, index, spreadsheet, output, document or extract issued from computerized databases of the Bank or any electronic, electrical, optical or computerized means in which data is registered or stored, as well as any other means customary at the Bank for the registration or storage of data, and any other approved copy of a document or output as stated.

The term “**Accounts**” shall mean - any record or copy of a record, whether registered or copied in writing or by machine or recorded or copied by way of printing, duplication, photocopy, including microfiche or any technical electrical or electronic device, including as means of recorded accepted in the data processing industry or the electronic computers industry or any other means of recording or the presentation of words or literature or marking, as practiced and/or customary at the Bank.

20. The Bank may, subject to the provisions of any law, transfer at any time its rights under this Debenture, or any part thereof, including the Secured Amounts, or grant its rights in full or in part to a third party, without the receipt of additional consent of the Company. Additionally, the transferee, subject to the provisions of any law, may also transfer all of the rights that are transferred thereto under this Debenture or any part thereof.
21. The Bank may deposit the collateral provided or that will be provided under this Debenture or part thereof, with a guardian at its discretion, on account of the Debtors, and replace the guardian from time to time, such that the Bank may record the aforesaid collateral, in whole or in part, with any competent authority under any law.
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22. a. The granting of this Debenture will not derogate from the right of the Bank to collect the Secured Amounts in a manner other than through the exercise of this Debenture.
- b. The exercise of this Debenture will not derogate from the right of the Bank to collect from the Company and/or the Debtors the balance of the Secured Amounts in a manner other than through the exercise of this Debenture.
23. In this Debenture:
- a. “**Bank**” shall mean - Mizrahi Tefahot Bank Ltd. and any of its branches existing on the date of this Debenture and/or that is opened in any place in the future, as any party on behalf of the Bank or in its place.
- b. “**Deeds**” shall mean - promissory notes, bills of exchange, checks, undertakings, guarantees, securities, checks, bills of lading, bills of deposit and any other marketable documents.
- c. “**Law**” - as defined in the Interpretation Law, 1981, including any law, regulation, order, instruction, license, permit, standard, demand, or request of a government authority, including provisions, permits and instructions of Bank of Israel, all as applicable and will be in force from time to time.
- d. “**environmental hazards**” - hazards in the field of environmental protection, in the broadest accepted form of this term, including harm to the public health, related to the Company and/or the Pledged Property and including, without derogating from the generality of the above, air and atmospheric pollution, water pollution, including groundwater, ocean water, land pollution, noise, smell, ionizing and non-ionizing radiation, waste and hazardous materials. Additionally, hazards for which there are instructions and requirements in the framework of business licensing and construction planning, the instructions of local authorities, the Ministry for Environmental Protection, the Ministry of Energy and Water, including the Water Authority, Ministry of Health, Minister of Interior, and Planning and Construction Committees and/or any other relevant authority (hereinafter: the “**Relevant Authorities**”).
- e. The preamble to this Debenture constitutes an integral part hereof.
- f. Where this Debenture is signed by two or more, the signing parties will be jointly and severally liable for the fulfillment of all of the undertakings under the Debenture.
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- g. The "**Base Index**" - regarding the principal amount: the Consumer Price Index that is most recently published prior to the signing of the Debtors on this Debenture. Regarding any of the charges and expenses: the Consumer Price Index published most recently before the execution of the charge or payment of expenses by the Bank.
  - h. The "**New Index**" - the Consumer Price Index published most recently before the actual payment date by the Debtors of any amount.
  - i. The "**Base Rate**" - regarding the principal amount: the exchange rate on the date on which the Company signs this Debenture. Regarding any of the charges and expenses: the exchange rate on the date of the execution of the charge or payment of expenses by the Bank.
  - j. The "**New Rate**" - the exchange rate on the actual payment date by the Company of any amount.
24. Any notice that is sent by the Bank to the Company and/or the Debtors based on any address set forth in this Debenture or any other address of which the Company and/or the Debtors notifies and/or will provide notice, as the case may be, to the Bank in writing - will be considered to have been sent and received thereby on time in accordance with the ordinary mail arrangements, unless proven otherwise. A written declaration from the Bank will serve as admissible evidence regarding the time and delivery of the notice.
25. The place of jurisdiction for the purpose of this Debenture is hereby determined to be a competent court of Israel.
26. The law that shall apply to this document and its interpretation will be the Israeli law.
27. Special conditions:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

In witness whereof, the Company affixes its signature:

\_\_\_\_\_  
/s/ Itamar Medical Ltd.  
The Company

\_\_\_\_\_

**Appendix A**  
**to the Secured Debenture**

[Omitted. The registrant agrees to furnish supplementally a copy of such omitted appendix to the U.S. Securities and Exchange Commission upon request.]

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**Appendix A1**  
**to the Secured Debenture**

The pledge will apply to all of the rights, including Intellectual Property Rights, of the Company that are currently existing and will exist in the future, whether registered in the name of the Company or otherwise, including if registration requests are submitted for the same on:

- (a) All of the know-how, inventions, patents, trademarks, designs, models, tradenames, copyrights and processes and technological applications.
- (b) Domain names, licenses, availability agreements, usage right agreements, illustrations, computer software, trade secrets and customer lists.

All whether the Company's rights are registered in its name or otherwise, or the aforesaid rights are currently existing or will exist in the future.

Regarding the aforesaid intellectual property rights or any part thereof, the Company undertakes to ensure that it and any subsidiary:

- (a) Will make all of the appropriate records and pay all of the expenses and fees required in order to keep and protect the intellectual property rights of the Company and/or its subsidiaries and/or registered for them.
  - (b) Will take all of the necessary measures, including legal proceedings, in order to prevent a third party from infringing the same intellectual property rights.
  - (c) Not to sell, transfer, lease or provide a license to use, other than the license arrangements with a third party that is not an affiliated party, made during the ordinary course of business and for ordinary consideration.
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**Appendix A2**  
**to the Secured Debenture**

[Omitted. The registrant agrees to furnish supplementally a copy of such omitted appendix to the U.S. Securities and Exchange Commission upon request.]

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**Appendix B**  
**to the Secured Debenture**

[Omitted. The registrant agrees to furnish supplementally a copy of such omitted appendix to the U.S. Securities and Exchange Commission upon request.]

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**Report of the Registrar of Companies attached to the Secured Debenture pursuant to Section 6a of the Secured Debenture**

[Omitted. The registrant agrees to furnish supplementally a copy of such omitted attachment to the U.S. Securities and Exchange Commission upon request.]

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**Mizrahi Tefahot Bank Ltd**  
(hereinafter: the "Bank")

**Re: Negative Charge**  
Irrevocable Undertaking

**WHEREAS** Itamar Medical Ltd. (hereinafter: the "**Client**") has received and/or is about to receive Credit from the Bank, as defined in the Bank's "Agreement and General Business Terms" and/or "Framework agreement" and/or "Application to Open an Account" and/or "Application to Effect Changes in an Account" and/or "Account Management General Terms and Conditions" and/or "General Conditions for Credit Activities" and all the appendices and amendments thereto and/or various banking services, (hereinafter: "**the Credit**");

**AND WHEREAS** we, the undersigned, I.M.E 2016 B.V. (hereinafter: the "**Company**") are subsidiary of the Client;

**AND WHEREAS** the Credit is and/or shall be given by the Bank *inter alia* in reliance upon this undertaking;

**WE ACCORDINGLY WARRANT, CONFIRM AND UNDERTAKE TO THE BANK AS FOLLOWS:**

1. As at the date of giving this undertaking, there is no floating charge over the Company's assets in favour of any third party, nor has the Company given any undertaking to create a floating charge in favour of any third party.
2. As at the date of giving this undertaking, there is no fixed charge over the Company's assets in favour of a third party, nor has the Company given any undertaking to create a fixed charge in favour of any third party.

The provisions of this clause and clause 1 above are save for the charges specified below:

2.1	_____	2.4	_____
2.2	_____	2.5	_____
2.3	_____	2.6	_____

3. The Company shall not in any matter charge its existing assets or its assets as shall exist from time to time in a floating charge and of any type or ranking without obtaining the Bank's prior written consent.
4. The Company shall not charge any asset that exists and/or is registered in its name without obtaining the Bank's prior written consent. Notwithstanding the foregoing provisions in this clause, the Company shall be entitled to create a fixed charge over new fixed assets in favour of another bank the purchase whereof shall be financed by such bank and such being up to the amount that it has borrowed from it for such purpose.
5. If for any reason whatsoever the Company shall breach its commitment herein, the Bank shall be entitled to immediate repayment of the credit amounts given to the Company and/or to the Client, in addition to any relief and/or remedy to which the Bank is entitled against the Company and/or the Client pursuant to any agreement or law.
6. The Company's irrevocable undertakings herein are given to secure the rights of Mizrahi Tefahot Bank Ltd., and shall continue to be in effect until its termination is approved by the Bank.
7. This undertaking shall be governed by and interpreted in accordance with the laws of the State of Israel, without giving effect to the rules respecting conflict of law. The competent courts in Tel Aviv shall have sole and exclusive jurisdiction over any dispute between the parties, as set forth herein.

Your faithfully.

/s/ Dorsha B.V.  
I.M.E 2016 B.V.  
By: Dorsha B.V.  
Its: Director

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[INFORMAL ENGLISH TRANSLATION]

Date: March 12, 2019

**Name of the customer:** Itamar Medical Ltd. (hereinafter: the "Borrower" or the "Company" or the "Customer")

**Company No.** 512434218

**Address:** 9 Halamish Street, Caesarea 3088900

**Account number:** 250888 in the Orot Mall Branch (hereinafter: the "Account")

**To:** Mizrahi Tefahot Bank Ltd. (hereinafter: the "Bank")

To Whom It May Concern:

**Re: Credit Agreement**

We are setting forth in writing the agreements reached between us in connection with the Credit Line and the loans made available to the Company, from time to time, in reliance on this Agreement and in reliance of a specific credit agreement and/or specific loan agreement that will be submitted to you in the future, from time to time, in reliance on this Credit Agreement. In addition to the provisions of this Agreement, the terms of the Line of Credit and all of the loans that will be provided to the Company, under any of the credit frameworks (hereinafter: the "Credit"), shall be in accordance with and subject to the "Account Opening Application" and/or "Account Changes" and "Account Management Packet" and "Credit Packet for a Business Customer," and all of the appendices and amendments in which we have engaged with the Bank, as well as subject to any specific credit / loan agreement or otherwise, between the Company and the Bank (hereinafter: the "Credit Documents"), and all of the provisions of the Credit Documents and all of the terms thereof shall apply and be binding with respect to the credit that will be provided to the Company by you. This Credit Agreement hereby replaced the line of credit agreement dated March 29, 2017, including its amendments dated January 29, 2018 and May 28, 2018 (hereinafter: the "Former Agreement"). It is hereby clarified that the provisions of this Agreement shall apply to credit lines which were provided under the credit frameworks pursuant to the Former Agreement, mutatis mutandis.

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1. Types of credit:

The amount of the credit that will be provided pursuant to this Agreement: a sum of USD 11,000,000, and subject to the provisions of section 4.1.1. hereunder, the amount of the credit shall be USD 15,000,000 (hereinafter: the "**Credit Amount**").

The Line of Credit and the Credit will be provided and may be utilized by the Company as of the date on which all of the preconditions and general terms as set forth in Section 5 below are satisfied (hereinafter: the "**Preconditions**") and subject to the Bank's signature on this Agreement.

All of the Credit Amounts that were provided and/or will be provided to the Company shall be repaid in full pursuant to the agreements set forth in the documents signed and/or that will be signed by the Company in connection with the provision of the same Credit, and subject to the terms of this Agreement.

2. **The Lender - Mizrahi Tefahot Bank Ltd.** (hereinafter: the "**Bank**")

3. **The Borrower - Itamar Medical Ltd.**, Company No. 512434218 (hereinafter: the "**Borrower**" or the "**Company**")

4. Types of credit:

**4.1. Long-term loans framework -**

4.1.1. The Bank shall provide a long-term loans framework (hereinafter: "**Loans framework**") in a cumulative amount of USD 6,000,000. It is hereby agreed that upon the fulfillment of the following terms, the Loans Framework shall be increased to the sum of USD 10,000,000:

- A. There has been no adverse change in the borrower's state.
- B. The borrowers' revenues in the months January – June 2019, were no less than USD 13,000,000 or, alternatively, the Borrower's revenues in the months January – June 2019 were no less than USD 11,500,000 and the Borrower has in fact raised an equity sum of USD 5,000,000 from its shareholders or from other investors, which was deposited in the account.

The Borrower shall provide the bank with documents evidencing the foregoing, to the bank's satisfaction.

The Loans Framework shall be valid and may be taken, until 12.21.2019. It is hereby agreed that the sum of the loan shall be no less than USD 2,000,000. It is hereby agreed that the Borrower may also elect to utilize the Long-term Loans Framework in order to obtain short term loans.

The Borrower's notice of its intent to withdraw any loan as stated above will be provided to the Bank in writing no later than two (2) business days prior to the date of the execution of the loan and will include the date requested for the provision thereof as well as the amount of the loan. The Bank will prepare the relevant loan agreement for the Borrower's signatures, including all of the details of the Loan and the relevant interest, as well as the other documents customary at the Bank.

- 4.1.2 The annual interest rate for the each short term loan - quarterly Libor + 5.5%. The annual interest rate for each long-term loan shall be agreed in writing by the parties prior to provision of the loan term loan.
- 4.1.3 Repayment –  
The principal of the long-term loan and the interest for the same will be repaid in 12 consecutive quarterly payments, as of the end of three months from the date on which the long-term loan was provided, all as shall be set forth in the amortization table which shall be provide to the Borrower upon the provision of the Loan. The method of repayment of the short-term loans shall be agreed by the parties in writing prior to the provision of the short-term loans.
- 4.1.4 The execution fee provision of each loan - shall be payable on the date of the provision of each loan, with a 50% discount compared to the Bank's fee schedule at the time.

For avoidance of doubt, it is hereby clarified that all of the foregoing loans are part of the Credit, as defined in this Agreement and all the provisions of this Credit Agreement with respect to the Credit shall apply to said loans.

**4.2. Credit limit to finance customer debt -**

4.2.1 The Loans Framework for financing customer debt in the amount of up to USD 5,000,000 (hereinafter: the “**Line of Credit for Financing Customer Debt**” or the “**Loan for Financing Customer Debt**”) will be in force and may be utilized subject to the provisions of Section 1 above, by 12.21.2019 (hereinafter: the “**Expiration of the Line of Credit**”). Any loan from the aforesaid framework will be calculated and provided pursuant to the following aggregate rules and conditions:

- 1) Invoices for payment that are not yet paid, which are issued by the Borrower and/or the US Subsidiary Itamar Medical Inc. (hereinafter: the “**US Subsidiary**”) and/or **I.M.E. 2016 B.V.** (hereinafter: the “**Dutch Subsidiary**”) to their customers, will be financed at a rate between **80%** and 85% of the amount of the same invoices (for each invoice), subject to the bank's sole discretion.
- 2) Invoices will be financed that are payable no later than 90 days from the Reporting Date, as set forth in Section 4.2.3 below, and in any case no later than the Expiration of the Line of Credit. Invoices in arrears shall not be financed, excluding invoices that are in arrears of up to 60 days on the date of the provision of the loan (hereinafter: “**Invoices in Arrears**”), and provided that the rate of the Invoices in Arrears does not exceed 10% of the total Loans for Financing Customer Debt. It is clarified that in transactions in installments, the payment date is the payment date of each payment. Additionally, deferred income as well as doubtful debts will be offset from the balance of the invoices.

Notwithstanding the foregoing, it is hereby agreed that the bank shall provide the Borrower financing against invoices which were issued as set forth above, for transactions which were paid by means of credit card and their repayment date exceeds 90 days, subject to the following terms;

- A. Transaction whose final repayment date does not exceed 12 months of the date of their execution, shall be financed.
- B. The total credit out of the Line of Credit for Financing Customer Debt, to be provided against such invoices shall not exceed USD 750,000.

- 3) The exposure vis-a-vis each individual customer (as calculated pursuant to this section) will not exceed 20% of the total Credit Limit for Financing Customer Debt.

Notwithstanding the foregoing, the exposure vis-à-vis the following customers shall not exceed 30% of the total Credit Limit for Financing Customer Debt. –

Kaiser Foundation Health Plan, Inc. and its affiliates  
Department of Veterans Affairs and its affiliates  
Phillips Respironics GK, Japan

The amount of the loan calculated in accordance with the rules above will be hereinafter: the “**Derived Amount.**”

- 4.2.2 Payment date of the Loans for Financing Customer Debt - the payment date of each Loan for Financing Customer Debt will not exceed 3 months from the date on which it is provided, with the final and absolute payment date of the loans provided being the expiration of the framework.

- 4.2.3 Reporting - The Borrower will provide the Bank, no later than 12 days from the end of each calendar month, with a report including the details of the invoices as of the last day of the previous calendar month, which is not yet paid by the reporting date, as well as the calculation of the Derived Amount. The reporting will be made in the form customary at the Bank as agreed upon by the parties in writing (hereinafter: the “**Monthly Invoices Report**”).

Additionally, together with the transfer of the unpaid invoices report, the Borrower will also provide a collection report regarding all of the invoices that were financed, which details the amounts collected in the previous month and the invoices that were paid.

The reports will be signed by the CEO of the Company or its CFO.

It is agreed that the Bank may, at its sole discretion, demand the presentation of the invoices set forth in the Report, in whole or in part.

The Bank may examine the calculation of the Derived Amount as well as disqualify any of the customers and/or invoices set forth in the report.

- 4.2.4 The adjustment of the balance amount of the Loans for Financing Customer Debt to the Derived Amount will be made within five days from the date of the provision of the report. The adjustment of the balance of the Loans for Financing Customer Debt will take place by the provision of Loans for Financing Customer Debt or the early repayment thereof. It is clarified that the Bank will not be required to provide Loans for Financing Customer Debt from the Line of Credit unless it has approved the debtor customers and the calculation of the Derived Amount, at its discretion.
- 4.2.5 The Borrower shall sign all of the documents required by the Bank for the execution of the provisions of this section.
- 4.2.6 The interest rate for the Loans for Financing Customer Debt - for each Loan for Financing Customer Debt, the Borrower will pay the Bank variable annual interest at a rate of monthly Libor + **4.25%**. The interest for the Loan for Financing Customer Debt will be repaid on a monthly basis (or based on the term of the Loan for Financing Customer Debt, as the case may be).

### **4.3 Fees**

- 4.3.1. For the Credit Limit for Financing Customer Debt and the long-term loan, the account will be charged a credit allocation fee at a rate of 0.9% per year, for the entire Credit Amount, as defined above, as of the signing date of this Agreement. The credit allocation fee shall be calculated daily and collected on a quarterly basis, at the beginning of each calendar quarter, for the preceding quarter.

For the same part of the framework that was actually utilized by the Borrower, the Borrower will receive a full reduction from the credit allocation fee set forth above. The calculation will take place regarding any credit provided, as of the date on which it is actually provided, for the unused balance.

The credit allocation fee as set forth above does not constitute a substitute for the ordinary fees customary at the Bank.

- 4.4 All of the additional conditions in connection with the credit that will be provided to the Borrower, insofar as they are not provided in this Agreement, including interest rates, payment dates, fees and other payments, will be as agreed upon and/or will be agreed upon in writing by the Bank and the Borrower.

5. Preliminary and general terms:

Any provision of any credit and/or its continued provision will be subject to the fulfillment of all of the following conditions:

5.1 The Borrower has opened account number 250888 at the Orot Mall branch (438) of the Bank (hereinafter: the “**Account**”).

The Borrower above has executed the customary Credit Documents at the Bank as well as the relevant documents required for the requested activity and/or credit and provided all of the minutes and attorney verifications as customary at the Bank.

5.2 The Borrower has provided the Bank with all of the following sureties, signed a bond or pledge deed for the same in the form customary in the Bank, and provided all of the documents, minutes, and attorney verifications as customary at the Bank:

5.2.1 A first-ranked floating charge, unlimited in amount, on all of the property, funds, rights and assets of any type or kind of the Borrower, and a first-ranked fixed charge, unlimited in amount, on the intellectual property of the Borrower, on the goodwill, documents and negotiable papers, on its bank account, and its holdings in the US Subsidiary and the Dutch Subsidiary, all as set forth in the bond, in the form agreed upon by the parties.

A first-ranked fixed pledge, unlimited in amount, on all of the rights to receive funds from customers of the Borrower, as set forth in the list that will be attached to the bond.

5.2.2 A first-ranked pledge for the benefit of the Bank, unlimited in amount, on all of the assets and property of the US Subsidiary (including its customers debts). The Borrower has provided the Bank with a legal opinion in the form customary at the Bank, based on which a charge on the assets of the US Subsidiary and its shares is valid vis-a-vis any third party, as well as confirmations of recordation of the charges in the United States. The Borrower and the US Subsidiary will make efforts to update the registered charge, such that it will remain in force until the absolute and final clearance of the debts and liabilities of the Borrower to the Bank.

Upon the execution of this agreement the US Subsidiary shall sign a report to the registrar of pledges.

5.2.3 The Dutch Subsidiary will have signed a “negative charge” document in the form agreed upon by the parties.

5.2.4 The lists of intellectual property and customers of the Borrower and the US Subsidiary as set forth above include the intellectual property of the companies as well as the lists of their customers on the signing date of the charge documents above. The companies undertake to update the lists on a biannual basis, to provide the updated lists to the Bank, and, to the extent required by the bank in writing, to update the pledge documents accordingly.

The Borrower shall provide to the bank upon the execution of this Agreement, updated lists of equipment, intellectual property rights and customers' debts, and shall further sign an amending warrant agreement, in the form attached hereto as exhibit 5.2.4.



- 5.3 The Borrower and the US Subsidiary will sign and provide the Bank with any document required by the competent authorities for the fulfillment of their undertakings in accordance with the provisions of this section.
- 5.4 The Borrower will deposit in the Account, funds as set forth in Section 8 below.
- 5.5 The Borrower signed on 07.09.2017 an undertaking with respect to various changes in the Borrower, including in its equity.
- 5.6 The borrower granted the bank on 05.14.2017 a warrant agreement which was amended in July 2017. The term of such warrant agreement is hereby extended until 03.28.2023, attached is an amendment warrant grant agreement.  
The Borrower signed an additional warrant agreement with the bank, attached hereto as exhibit 5.6 of the agreement. The listing of the securities underlying the said warrant agreement an options agreement for trading on the Tel Aviv Securities Exchange ("**TASE**") is subject to the TASE approval. The company shall take action as soon as practicable in order to obtain such approval.
6. The Borrower and the US Subsidiary hereby assign to the Bank all of their rights, existing and future, for the receipt of funds from their customers, existing and future. Additionally, the Borrower undertakes to act in order for all of the direct payments of its customers, as well as all of the payments owed thereto from the subsidiaries, will be made solely to the bank account set forth in Section 5.1 above, and the same Account will be listed in all of the accounts for payment provided thereby.
7. The subsidiaries undertake to transfer funds to the Borrower's Account, at the first request of the Bank, to cover the credit provided in the Credit Limit for Financing Customer Debt.
- The Borrower hereby undertakes to employ its means of control over such subsidiaries in order for the funds to be transferred to its account as aforementioned.
8. The Borrower undertakes that as of the date of the withdrawal of the credit, in whole or in part (whether a withdrawal of a loan from the Credit Limit for Financing Customer Debt or a withdrawal from the loans framework), the balance of the cash in the Bank's Account will not be less at any time than 40% of the sum of credit actually provided (hereinafter: the "**Required Deposited Amount**"). It is agreed that a temporary reduction in the amount, at a rate of up to 10% of the Required Deposited Amount, will not constitute grounds to call the credit due for repayment, subject to the fulfillment of the following terms: (1) the temporary reductions was coordinated with the Bank in advance and in writing; and (2) the Borrower has deposited, within 30 days, in its Account, the amount required such that the Borrower's cash balance in the Account is at least the required Deposited Amount.

9. The Borrower undertakes to ensure that no charges are created on the assets of the subsidiaries (other than as set forth in this Agreement), unless agreed to in advance and in writing by the Bank, and the Borrower further undertakes that it will not change the pricing of the transactions between it and the subsidiaries, as it may be, on the signing date of this Agreement without obtaining the Bank's prior written consent, unless such a pricing change is required under applicable law.
10. Without derogating from the undertaking of the Borrower to provide information and documents, as agreed upon by the Bank and the Borrower, the Borrower undertakes to provide the Bank, on a quarterly basis, with its consolidated financial statements and those of its subsidiaries, audited (regarding the annual financial statements) and reviewed (regarding the quarterly financial statements) by an accountant, as the case may be, as well as any business and financial information, at the request of the Bank. It is emphasized that the reporting on MAGNA and/or on EDGAR (in the event that the securities of the company are listed for trading in the U.S.A) of the annual or quarterly financial statements shall be considered to be the delivery of the information to the Bank. In the event that the company's securities are listed for trading in the U.S.A, an Earnings Release shall be deemed a quarterly financial statement.
11. It is hereby explicitly clarified that the actual provision of the loans and/or credit, pursuant to this Agreement, is contingent on the fulfillment of all of the conditions set forth in this Agreement above, and that the loans and/or credit will be provided based on the agreements set forth in the terms of the Credit Documents, subject to the provisions of this Agreement. The provision of the credit is also contingent on there being no legal impediment for the same, and that the same does not conflict with the provisions of the law and/or the instructions of the Supervisor of Banks (including the provisions of Proper Banking Procedure No. 311 "Minimum Capital Ratio" and Procedure no. 313 - "Restrictions on Companies of a Borrower and Group of Borrowers" and/or any other provisions that shall replace them) and provided that the granting of the credit does not cause a deviation from the liability restrictions of a borrower / group of borrowers. As of the date of the execution of this Agreement, the Bank is not aware of any such impediment or limitation.

12. A breach of any of the undertakings set forth in this document shall be deemed grounds to call for immediate repayment of the credit in its entirety and will not permit the provision of loans from the Credit Limit for Financing Customer Debt and/or the provision of the long-term loan, as the case may be. For the avoidance of doubt, the above shall be in addition to the grounds for calling the credit for immediate repayment, as set forth in the other documents signed and/or that will be signed by the Borrower.
13. The Bank may, at any time and from time to time, in any case in which the Bank may perceive an inability to collect the credit and/or if an adverse change occurs to the Borrower's solvency and/or a materially adverse change to the financial or business state thereof and/or if there are grounds to call the credit for immediate repayment and/or in the event that any of the other conditions occur as a result of changes of the law, or its interpretation which require a reduction and/or cancellation and/or delay of the Line of Credit immediately, while providing notice to the Borrower to reduce and/or cancel the Line of Credit that is not utilized and/or postpone the provision of any loan, in whole or in part, and/or to delay it.
14. For the avoidance of doubt, the above was not intended to grant rights to any third party, and the same will not constitute a representation on which any third party may rely.
15. All of the appendices to this Agreement constitute integral parts hereof and all of the provisions of the appendices will supplement and be in addition to the provisions of this Agreement. In any case of a conflict between the provisions of this Agreement and the provisions of the Credit Documents or the appendices, the provisions of this Agreement shall prevail, unless expressly agreed otherwise in any of the appendices or Credit Documents. In any other case, the provisions of this Agreement and the provisions of the Credit Documents and the appendices thereto shall be deemed supplementary to each other.

16. The Borrower will pay the Bank, upon the signing of this Agreement, a sum of USD6,000, for the drafting of the documents. This fee is in addition to the fees customary in the Account.

Respectfully,

/s/ Gilad Glick

/s/ Shy Basson

\_\_\_\_\_  
**Itamar Medical Ltd.**

*To Bank Mizrahi Tefahot Ltd.*

*Dear Sir, madam*

*We confirm that we have read the foregoing document and we agree to its contents and undertake to act accordingly.*

/s/ Gilad Glick

/s/ Shy Basson

\_\_\_\_\_  
Itamar Medical Inc.

\_\_\_\_\_  
I.M.E. 2016 B.V.

*We confirm the above*

/s/ **Mizrahi Tefahot Bank Ltd.**

\_\_\_\_\_  
**Mizrahi Tefahot Bank Ltd.**

[INFORMAL ENGLISH TRANSLATION]

Mizrahi Tefahot Bank Ltd.

Deed of Pledge Legal Amendment

Company Number
512434218

Pledge number 13

Name of the Company/borrower – **Itamar Medical Ltd.**

Amendment Code: 40

Replacement of exhibits A2 and B attached to the amending Deed.

List of codes:

- 
- 01 Assignment of rights to another
  - 02 Change in the loan agreement
  - 03 Decrease of the secured amount
  - 04 Change in special terms
  - 05 Change in the degree of the pledge
  - 11 Addition of collateral
  - 12 Changes in collateral
  - 13 Release of a collateral
  - 14 Addition of identification for a collateral (include vehicle license number)
  - 21 Partial repayment
  - 40 Other Changes

03.12.2019

/s/Gilad Glick /s/ Shy Basson

/s/ Mizrahi Tefahot Bank Ltd.

Date

signature of the Borrower

Signature of the Bank

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Date: 03.12.19

**Amendment Deed of Debenture dated 05.27.2017**

**Whereas:** on 05.28.17 Itamar Medical Ltd. company number 512434218 (hereinafter, the "**Company**") signed a debenture in favor of Mizrahi Tefahot Bank Ltd. (hereinafter, the "**Bank**"), pursuant to which a it pledged by floating charge of a first degree its manufacturing facility and all the reminder of assets and rights of any kind what so ever, in its possession now or in the future and by fixed pledge of a first degree its reputation, its fixed assets as detailed in **Exhibit A** of the debenture, the intellectual property as detailed in **Exhibits A1 and A2**, of the debenture, the Company's rights to receive funds as detailed in **Exhibit B** of the debenture, all the Company's holdings in Itamar Medical Inc., and I.M.E B.V (2016), its bills of lading and certificates, securities, documents and deeds as well as the Company's account with the Bank, all as detailed in the debenture; the said debenture was registered by the Companies Registrar on 06.13.17 as certificate number 13;

**Whereas:** the company and the Bank agreed that the debenture shall be amended as detailed in this amending deed and that the reminder of the provisions of the debenture shall remain unchanged, all as detailed hereunder;

**Now therefore it is hereby agreed by the parties as follows:**

1. It is hereby agreed that:
  - Exhibit A (list of the fixed assets) shall be replaced with Exhibit A attached to this amending deed.
  - Exhibit A2 (list of intellectual property rights) shall be replaced with Exhibit B attached to this amending deed.
2. The reminder of the provisions of the debenture shall remain unchanged.
3. The respectable registrar is hereby requested to register in his records the amendment of the debenture as set forth above.

**In witness thereof the parties have thereunto signed today March 12, 2019**

/s/Gilad Glick /s/ Shy Basson  
signature of the Borrower

/s/ Mizrahi Tefahot Bank Ltd.  
Signature of the Bank

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**Appendix A**  
**to the Secured Debenture**

[Omitted. The registrant agrees to furnish supplementally a copy of such omitted appendix to the U.S. Securities and Exchange Commission upon request.]

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**Appendix A1  
to the Secured Debenture**

The pledge will apply to all of the rights, including Intellectual Property Rights, of the Company that are currently existing and will exist in the future, whether registered in the name of the Company or otherwise, including if registration requests are submitted for the same on:

- (a) All of the know-how, inventions, patents, trademarks, designs, models, tradenames, copyrights and processes and technological applications.
- (b) Domain names, licenses, availability agreements, usage right agreements, illustrations, computer software, trade secrets and customer lists.

All whether the Company's rights are registered in its name or otherwise, or the aforesaid rights are currently existing or will exist in the future.

Regarding the aforesaid intellectual property rights or any part thereof, the Company undertakes to ensure that it and any subsidiary:

- (a) Will make all of the appropriate records and pay all of the expenses and fees required in order to keep and protect the intellectual property rights of the Company and/or its subsidiaries and/or registered for them.
  - (b) Will take all of the necessary measures, including legal proceedings, in order to prevent a third party from infringing the same intellectual property rights.
  - (c) Not to sell, transfer, lease or provide a license to use, other than the license arrangements with a third party that is not an affiliated party, made during the ordinary course of business and for ordinary consideration.
-



**Appendix A2**  
**to the Secured Debenture**

[Omitted. The registrant agrees to furnish supplementally a copy of such omitted appendix to the U.S. Securities and Exchange Commission upon request.]

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**Appendix B**  
**to the Secured Debenture**

1. The parties declare and agree that the terms defined in the Debenture to which this Appendix constitutes an integral part will also be used for the purpose of this Appendix B.
  2. This Appendix B constitutes an integral part of the Debenture and will be read as part of its sections.
  3. Below shall detail the rights that are pledged for the benefit of the Bank as set forth in the Debenture:
  4. All of the rights of the Company, existing and future, for the receipt of funds from customers of the Company, as stated in Section 7(m) above, as set forth in the attached list, under any framework agreement and any contract, undertaking and/or order that shall be provided from time to time, as set forth below:
-

Itamar Medical LTD- customers List

[Omitted. The registrant agrees to furnish supplementally a copy of such omitted attachment to the U.S. Securities and Exchange Commission upon request.]

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Name of Customer: Itamar Medical, Inc.

Address: c/o Itamar Medical Ltd. Halamish 9, Caesarea, Israel

I.D./Company No: 3213646

**MIZRAHI TEFAHOT BANK LTD**

**Kenyon Orot Branch**

**CONTINUING GUARANTEE IN AN UNLIMITED AMOUNT TO SECURE ALL DEBTS**

**PREAMBLE**

WHEREAS Mizrahi Tefahot Bank Ltd (hereinafter referred to as the "Bank") has granted or from time to time shall grant to Itamar Medical Ltd. (hereinafter referred to as the "Customer") credit under such terms as from time to time were and/or shall be agreed upon between the Bank and the Customer in respect of each credit;

AND WHEREAS we, the undersigned, are willing to guarantee to the Bank the repayment of debts of any kind owing now and / or hereafter from the Customer to the Bank;

NOW THEREFORE WE CONFIRM, GUARANTEE AND UNDERTAKE AS FOLLOWS:-

**DEFINITIONS**

1. In this Guarantee:-
  - (a) "Credit", whether in Israeli currency or in any foreign currency, includes every revolving credit, single credit, loan, discount, purchase and or brokerage of bills, overdraft, granting of guarantee and/or letter of indemnity, opening of documentary credit, grant of extension of time, and of various banking facilities, handling of bills of lading transactions in securities services, or any other payments granted or to be granted now or hereafter by the Bank to the Customer or to his order, whether in Israel or abroad, as well as every and any other transaction or other action whereby or as a result of which debts or obligations are or may be incurred or undertaken by the Customer towards the Bank, whether as debtor, guarantor or endorser and/or in any other manner whether the said debts be owing from the Customer jointly or severally, whether owing presently or hereafter, whether maturing prior to the execution hereof or hereafter, whether certain or contingent, whether owing directly or indirectly, whether express or implied.
  - (b) Words importing the singular shall include the plural and vice versa.
  - (c) Words importing the masculine gender shall include the feminine gender and vice versa.
  - (d) "Bank" means Mizrahi Tefahot Bank Ltd and includes all branches and/or offices and/or subsidiaries and/or affiliates of the Bank existing on the date of this Guarantee, whether in Israel or abroad, and/or any such branch and/or office and/or subsidiary and/or affiliate of the Bank that shall at any future date be established in any place whether in Israel or abroad, its assigns and any person or legal entity duly authorized to act on behalf of the Bank and its duly appointed representatives.
  - (e) The "Customer" includes the heirs, estates, successors, executors and administrators of their wills and estates and their appointees and substitutes, guardians, liquidators, directors, partners, shareholders, trustees and assigns of the Customer or power of attorney acting in the Customer's stead.
  - (f) "Bills" include promissory notes, cheques, bills of exchange, commitments, guarantees, bills of securities, drafts, bills of lading and any other negotiable and any other negotiable instruments.
  - (g) "Consumer Price Index" means the price index known as "the Consumer Price Index" (cost of living index) including fruits and vegetables, published by the Central Bureau of Statistics of the State of Israel, and including such index if published by another official body or institute, and also any official index replacing it, irrespective of whether based on the same data.
  - (h) The expression "Representative Rate of the US Dollar" or "Representative Rate" means the representative of the US dollar determined by the Bank of Israel. In the event that the Bank of Israel ceases to determine the Representative Rate either temporarily or permanently, the Representative Rate shall be determined by the Bank.
  - (i) The expression "Dollar" means the US dollar.
  - (j) "Exchange Rate" means the selling price for cheques and transfers and/or bank notes of any denomination whatsoever in foreign currency, all as shall be determined by the Bank. In the event that at any such time two or more exchange rates as aforesaid are prevailing at the Bank, the Exchange Rate shall be the highest such rate then prevailing. In the event that at the time of such conversion of foreign currency additional payments, including commissions, levies, taxes, fees and other costs, etc. shall apply, the Exchange Rate shall be deemed to include any such additional payments.
  - (k) The preamble to this Guarantee shall constitute an integral part hereof.

- GUARANTEE** 2. We hereby irrevocably guarantee to the Bank and its assigns absolutely, unequivocally and unconditionally the full and prompt repayment of any sums owing now and/or hereafter from the Customer to the Bank, *inter alia*, in connection with the granting of the Credit by the Bank to the Customer, whether the said debts be owing from the Customer singly or jointly with another or others, whether incurred by the Customer in the past or are to be incurred by the Customer in the future, whether owing from the Customer as debtor, guarantor or endorser, whether owing now or hereafter, whether certain or contingent, whether owing directly or indirectly, with the addition of interest, commissions, damages, linkage differentials, exchange rate differentials and any other reasonable and actual charges and costs (all the aforesaid sums hereby guaranteed by us shall hereinafter be referred to as the "Said Sums"). For the avoidance of any doubt, it is hereby agreed and confirmed that we hereby guarantee all linkage differentials and/or exchange rate differentials of any kind whatsoever owing now and/or hereafter by the Customer to the Bank in respect of linked principal and/or linked interest constituting part of the Said Sums. Accordingly, the expression the "Said Sums" shall also be deemed to include the aforesaid linkage differentials and exchange rate differentials.
- OBLIGATION AMOUNT.** 3. The aggregate amount which we shall be obliged to pay the Bank under the present Guarantee (hereinafter referred to as the "Guaranteed Amount") shall be an **unlimited amount**.
- PAYMENTS DATES** 4. We undertake to pay the Bank any amount it may demand from us from time to time, within 7 (seven) days of the date of the dispatch of its first demand notice on account of the Guaranteed Amount as the Customer shall owe the Bank, up to the full actual repayment thereof.
- WAIVER OF PRIOR DEMAND NOTICE FOR REPAYMENT TO CUSTOMER** 5. Except for the notices required pursuant to this Guaranty and as required by applicable law, the undersigned waives notice of acceptance of this Guaranty and notice of any liability to which it may apply, and waives presentment, demand of payment, protest, notice of dishonor or nonpayment of any such liabilities, suit or taking other action by the Bank against, and any other notice to, any party liable thereon (including the undersigned). Notwithstanding the foregoing, the Bank shall provide notice of default to the Customer concurrently with providing a demand for payment to us. We shall pay the Bank all such sums as the Bank may demand from us as aforesaid, without imposing upon the Bank any duty to provide us with any accounts or proof whatsoever of the non-performance by the Customer of his obligations, and we hereby waive any requirement that the Bank make prior demand for payment of any such sums from the Customer. The Bank shall be entitled to demand from us the performance of this Guarantee, without the Bank being obliged to institute any proceedings for the collection of any such sums from the Customer, or from any liquidator or trustee thereof or from other guarantors or to realize other collateral. The institution of any proceedings by the Bank in order to collect any such sums shall not derogate from our obligations to pay any such sums immediately and we shall not be entitled to delay the payment of any such sums until the finalization of any other proceedings instituted by the Bank.
- FOREIGN CURRENCY TRANSACTION** 6. In every instance that Credit is granted or is to be granted to the Customer in any foreign currency (hereinafter referred to as a "Foreign Currency Transaction"), we hereby undertake to pay to the Bank or to its order in that same foreign currency all the Said Sums which are due and which shall become due from the Customer with respect to that Foreign Currency Transaction, including principal, interest and linkage differentials, if they occur, as well as commissions and reasonable and actual expenses resulting from the linkage of the principal and the interest or any one of them, to the Exchange Rate.
- In the event that the Bank shall be compelled to take legal action against us (on the basis of this Guarantee) in order to recover Said Sums in respect of a Foreign Currency Transaction and the court and/or the execution office shall order us to pay any sums in respect of the Foreign Exchange Transaction, in Israeli currency or in consideration of Israeli currency, we hereby undertake to pay the Bank the amount, in New Israeli Shekel, or the proceeds thereof, which shall be sufficient for the conversion into foreign currency of the said amount in accordance with the Exchange Rate prevailing on the date of actual payment.
- LIABILITY IN EVENT OF ARRANGMENT, LIQUIDATION OR BANKRUPTCY** 7. In the event of any arrangement made with respect to the debts of the Customer, (including an arrangement by the court) or the liquidation or bankruptcy thereof, such arrangement shall not derogate from our obligations pursuant to this Guarantee and the Bank shall be entitled to demand from us the Guaranteed Amount in full in accordance with the amount of the Said Sums as would have been due from the Customer to the Bank if it were not for such arrangement, liquidation or bankruptcy. The Bank shall be entitled to consent to any compromise settlement, and such compromise shall not to derogate from our guarantee for the entire Guaranteed Amount. We undertake not to submit evidence of a debt to a receiver, trustee, etc., without the prior written approval of the Bank which shall not be unreasonably withheld. Notwithstanding the foregoing, we may submit to the receiver, trustee, etc., proof of a debt (or claims of a debt or claims of a similar nature), only if it is emphasized that such claims are subordinate and junior to the rights of the Bank at the time of the receivership or dissolution.

**UNCONDITIONAL  
GUARANTEE**

8. The Bank is not bound to accept any additional collateral or guarantee from Customer in respect of the payment of the Said Sums. If it was known to us at the time of or prior to our signing this Guarantee that the Bank was about to obtain other collateral from the Customer or further guarantees, including any instance in which names of additional guarantors were to be supplemented to this Guarantee and the Bank shall not have received such additional collateral and/or the additional guarantors shall not have signed any other guarantee, the validity of this Guarantee shall not thereby be derogated from and we shall perform all our obligations hereunder.

**PRESERVATION OF  
GUARANTEE**

9. The Bank may from time to time, whether with or without our consent and with or without any notice to us:-
- (a) Discontinue, vary, decrease, increase, or renew any Credit to the Customer;
  - (b) extend the time for payment or grant other similar accommodations to the Customer and/or to any other person and/or to the Guarantor or to any one of us;
  - (c) exchange, renew, modify, release, terminate, enforce or refrain from enforcing any collaterals or guarantees held or which shall be held by the Bank, whether obtained from the Customer and/or from other persons and/or from the Guarantors and/or from any one or more of us;
  - (d) compromise, waive, release or make any other arrangement with the Customer and/or with any other person and/or with the Guarantors and/or with any one of us, of his obligations;
  - (e) procure the non-discharge of any indebtedness incurred by the Customer in respect of the granting of the Credit, or procure the release of any collateral given in connection with the granting of the Credit;
  - (f) refrain from notifying us of the non-performance of any obligations whatsoever by the Customer and/or postpone or suspend the submission of demands against us hereunder, without the same being deemed to constitute a precedent, waiver, limitation of action or negligence on the part of the Bank.

Upon the occurrence of any of the aforesaid events, even if as a consequence thereof a loss shall be incurred by the Bank, this Guarantee shall remain fully valid and effective and shall not be affected or altered or reduced as to the amount thereof and all our obligations shall remain unaffected and shall not be reduced. In order to avoid all doubt, it is hereby stipulated that if the Bank perform any of the aforesaid acts, we shall not be entitled to any right of option, right of cancellation or any other right stipulated in the Guarantee Law, 5727-1967, in respect of the said acts and we hereby expressly waive all our said rights thereunder.

**WAIVER OF DEFENCE  
CLAIMS**

10. This Guarantee shall not be derogated from, reduced or altered and shall remain valid and effective:-
- (a) in the event that the Customer's indebtedness to the Bank is impaired or invalid for any reason whatsoever including, inter alia, by reason of the capacity or representation of the Customer;
  - (b) in the event that the Bank's right to claim the payment of the Guaranteed Amount from the Customer has terminated due to prescription;
  - (c) in the event that the Customer denies his liability towards the Bank or in the event that the Customer has or raises any claims against the Bank.
  - (d) In the event that the Customer is a corporation that has passed a resolution to merge with another corporation, whether as an absorbing company or as a target company, as defined in the Companies Law, 5759-1999.

In each of the aforesaid instances, the abovementioned indebtedness shall, for the purposes of this Guarantee, be deemed to be valid, unimpaired, fully effective, non-appealable and unable to be responded to for the purposes of this Guarantee and we hereby declare that we shall not raise any claim against the Bank and that all our obligations pursuant to this Guarantee shall remain fully effective and we hereby waive, in advance, any rights or claims that the Guarantee Law, 5727-1967, confers or allows in such circumstances.

**PRESERVATION  
OF OBLIGATIONS**

11. In the event that we or any one of us or the Customer is a legal entity, whether incorporated or unincorporated, or a trustee, executor or administrator, or joint account holder at the Bank, or any type of organization or entity constituting an affiliation of entities, our obligations hereunder shall not be derogated from by reason of any change in our name, constitution or composition or in that of the Customer.

**CONSIDERATION**

12. Without deeming consideration to be a precondition to the validity of this Guarantee in whole or in part, we hereby confirm that the Bank's consent to advance Credit from time to time to the Customer or any party constituting the Customer shall be deemed to be full consideration for our obligations hereunder, in whole or in part.

**COLLATERAL**

13. All present and future collateral and guarantees for our obligations held or to be held by the Bank including those stipulated hereunder, shall constitute collateral for the performance of all our obligations hereunder: The bills of our customers or other parties, or securities or other negotiable instruments as shall be held by the Bank from time to time. Such bills, securities or other negotiable instruments shall be deemed to be pledged and charged to the Bank from the moment of their delivery to the Bank as collateral. We hereby exempt the Bank from all obligations as holder of a bill, such as, presentation for acceptance or for payment, protest and notice of dishonor and the signatures, endorsements and guarantees on bills and any other negotiable instruments shall remain valid until their discharge, without any formal requirements whatsoever having to be met and we hereby waive the right to raise the defense of prescription.

**BANKER'S LIEN PLEDGE AND SET-OFF**

14. Without prejudice to any other right of the Bank, the Bank shall have a right of pledge, charge, possession, bankers' lien and set-off on all amounts that are or shall be held by the Bank at any time to our credit in a current or any other account whatsoever, whether held jointly or severally, whether with another or others and/or with respect to any and all assets (including, without derogation from the generality thereof, diamonds, gold, securities, bills, coins, banknote, goods, documents relating to goods, insurance policies, assignments of debts, any negotiable instruments, deposits, collateral, mortgages and other rights) that are and/or shall be held and/or credited to or on our behalf at the Bank, in any form or manner whatsoever, including those that have been or shall be delivered to the Bank for collection and/or as security and/or for custody and/or in any other manner whatsoever and on the proceeds thereof. The Bank shall be entitled at any time and from time to time to utilize any asset to which the said lien, pledge, charge or set-off shall apply, in any way or manner, including by realization, collection and sale, at any price and in accordance with any terms as the Bank shall deem proper, and from time to time, to utilize the proceeds (in part or fully) that shall be received as a result of or in relation to such realization and/or collection or sale for the partial and/or full repayment of the Said Sums. At any time that we shall owe, or might owe, or only conditionally owe the Bank any monies pursuant to this Guarantee, the Bank shall be entitled to utilize its rights to fully realize the said pledge, charge, possession, lien and set-off or any of them, in order to discharge the amounts that are or shall be owed by us to the Bank or as security for their repayment. We do not have and shall not have any claim or plea of any type whatsoever against the Bank for taking any action stipulated in this Clause. In order to effect any of the said actions, the Bank shall be entitled to take all legal and other proceedings as it shall deem necessary.

All costs related to the realization and/or sale and/or taking any legal proceedings both against Customer and us, shall be borne by us, and the Bank shall be entitled to debit our account accordingly. In every instance of the collection of bills, the Bank shall be entitled to negotiate and discount the bills to other persons in a reasonable amount, take all legal and other proceedings for the collection of the bills, debit our account with the collection charges, compromise with the makers, endorsers or guarantors thereof or grant any reasonable concessions whatsoever, accept partial payment and from time to time, apply the proceeds of the bills in full or partial payment of the Said Sums.

**DEBITING AND CREDITING OF PAYMENTS**

15. The Bank may at any time at its reasonable discretion:-
- (a) Debit any account in our name with any amount owing now or hereafter to the Bank pursuant to this Guarantee.
  - (b) Credit any amount paid by us or on our account in any manner and form to such account as the Bank shall deem proper.
  - (c) Transfer any amount standing to our credit in any account in our name to any other account maintained in our name.
  - (d) Credit any amount received from the Customer or on his behalf or on account thereof or upon the realization of any collateral held by the Bank to such account as the Bank shall deem proper.

**CONTINUING GUARANTEE**

16. This Guarantee shall be continuing and revolving security and shall continue to be effective notwithstanding any settlement of accounts with the Customer and shall bind us and our assigns (which expression shall be interpreted as including guardians, custodians, heirs, administrators and executors of wills, trustees, receivers, liquidators and successors and any party acting in their stead) until the expiration of thirty (30) days from the day on which the Bank, through the branch at which we executed the present Guarantee, receives written notice from us of the termination of the Guarantee. The said notice shall not derogate from our Guarantee and our liability for the debts, transactions and obligations that the Customer has effected or undertook to effect prior to the termination of the said period of 30 (Thirty) days, even though their maturity dates may occur after the expiration of the said period.

**SUBORDINATION OF INDEBTEDNESS OF CUSTOMER**

17. We hereby agree that any indebtedness of the Customer, now or in the future owed to us and outstanding at the time of enforcement of, or collection under, this Guarantee, is hereby subordinated to the Said Sums. If the Bank so request, any such indebtedness shall be collected, enforced and received by the Guarantor as trustee for the Bank, and shall be paid over to the Bank in kind on account of the Said Sums, provided that the Bank is then entitled to collect an amount equal to, or greater than, such indebtedness from the Customer pursuant to any agreement and/or Credit provided by Bank to Customer.

**SUBROGATION**

18. We hereby agree that, until the payment and satisfaction in full of all of the Said Sums, we shall not exercise any right, remedy, power or privilege, such as any right of subrogation, contribution or indemnity or related remedy, power or privilege, arising to us (whether by contract or operation of law) against the Customer in respect of all or any part of the Said Sums or any collateral for all or any part of the Said Sums by reason of any payment or other performance pursuant to the provisions of this Guarantee and, if any amount shall be paid to us on account of such rights, remedies, powers or privileges, we shall hold such amount in trust for the benefit of, and pay the same over to, the Bank, on account of the Said Sums. We understand that the exercise by the Bank of any right, remedy, power or privilege that it may have under any agreement with Customer and/or with us relative to all or any part of the Said Sums may affect or eliminate our right of subrogation or similar recovery against the Customer, any other guarantors or any collateral, and that we may therefore incur partially or totally non-reimbursable liability under this Guarantee. Nevertheless, we hereby authorize and empower the Bank to exercise, in its sole discretion, any combination of such rights, remedies, powers and privileges, provided however, that such exercise of rights is in accordance with the terms of its agreements with Customer or with us.

**CONDITIONAL RELEASE**

19. In the event that our obligation to the Bank pursuant to this Guarantee is for any reason whatsoever revoked or terminated or the Bank shall confirm that our obligation as herein stipulated has terminated, we hereby agree that in any event of the Bank being ordered by any court to repay to any person or body whatsoever any amount whatsoever paid to the Bank in discharge of the Said Sums or on account thereof (whether such amount was paid to the Bank by mistake or in fraudulent preference or for any other reason whatsoever) we hereby undertake to compensate and indemnify the Bank in respect of any sum which the Bank is ordered to pay and/or incurs in relation thereto, with the addition of all the expenses and payments incurred with respect thereto and with the addition of interest accrued on such sums, charged at the highest rate of interest then prevailing, until we fully repay all the amounts stipulated in this paragraph to the Bank.

**AUTONOMOUS NATURE OF COLLATERAL**

20. This Guarantee shall be deemed to be autonomous of any other collateral or guarantees and shall not be prejudiced or affected by any such other collateral or by reason of the Bank receiving impaired or invalid collateral or guarantees.

We hereby waive any right to receive by way of transfer to us or to participate in any other collateral which the Bank holds in respect of the repayment of the Said Sums and we shall not perform any act with the purpose of obtaining any rights in the said collateral, notwithstanding payment by us of the full Guaranteed Amount.

**INDEMNITY**

21. In addition to our guarantee provided herein, the present document shall constitute an undertaking of indemnity and we hereby undertake to indemnify the Bank, within the limits of the Guaranteed Amount, for any damages, costs and losses caused to the Bank in any action or legal proceeding brought by third parties, with the exclusion of lost-profit damages only, as result of granting credit to the Customer, subject to the relevant conditions stipulated herein.

**BANK ENTRIES**

22. All entries recorded in the books of the Bank shall be deemed to be accurate and shall serve as sufficient evidence against us with respect to all their details, regarding all the accounts of the Customer unless disputed by Customer within thirty (30) days of entry being provided to Customer. Copies of such entries and/or, at the discretion of the Bank, every item in such entry or such page or in separate document or any part of such entry or the last page of the said entry or any part thereof that shall be approved by an officer of the Bank, shall serve as sufficient evidence as to the existence of such entry and as to the accuracy of the details appearing thereon.

The term "the books of the Bank" shall be deemed to also include any book, ledger, statement, copy of statement, loan agreement, deed of undertaking, bill signed by the Customer, index card, page, roll or any other means or by electronic data storage and computerization and other means of data storage.

The term "entry" shall be deemed to also include any entry or copy of an entry whether written or copied by hand or typewriter or whether recorded by printing, stenciling, duplicating, photostating (including microfilming) or any other mechanical, electrical or electronic means or by electronic computer recording means or any other means of recording or presenting words or presenting words or number or any other symbols whatsoever which exist and/or are utilized at the Bank.

For avoidance of doubt, in no event shall the Bank provide us with any books and records with respect to Customer if doing so is prohibited by any applicable law or regulation.

**TAX GROSS UP AND SETOFF**

23. We shall make all payments to be made by us under this Guarantee without any deduction or withholding for or on account of any tax (together, a "Tax Withholding") unless a Tax Withholding is required by law. We shall promptly upon becoming aware that we must make a Tax Withholding (or that there is any change in the rate or the basis of a Tax Withholding) notify the Bank accordingly. If a Tax Withholding is required by law to be made by us, the amount of the payment due from us shall be increased to an amount which (after making any Tax Withholding) leaves an amount equal to the payment which would have been due if no Tax Withholding had been required. If we are required to make a Tax Withholding, we shall make that Tax Withholding and any payment required in connection with that Tax Withholding within the time allowed and in the minimum amount required by law. Within 30 days of making either a Tax Withholding or any payment required in connection with that Tax Withholding, we shall deliver to the Bank evidence satisfactory to the Bank that the Tax Withholding has been made or (as applicable) any appropriate payment has been paid to the relevant taxing authority. All payments made by us to the Bank under this Guarantee shall (save insofar as required by law to the contrary) be paid in full without set-off or counterclaim.



- TECHNICAL CHANGES** 24. For the avoidance of any doubt and for the purposes of clarification, it is hereby stated that: in the event that for any bureaucratic, administrative or technical reasons, a change shall occur in the number of any account (as such account is included in the definition of "Credit" in this document) or the account is transferred to another branch of the Bank, all the provisions of this Guarantee shall be deemed to relate to the said account pursuant to the new number so given or at the other branch to which the account has been transferred, even in the event that it shall be stated in this document that our Guarantee relates to Credit which the Customer has received in a particular account or at a particular branch.
- ASSIGNMENT OF RIGHTS** 25. This Guarantee may be assigned by the Bank without the need to obtain our prior consent.
- MUTUALLY DEPENDENT, JOINT AND SEVERAL LIABILITY** 26. In the event that the Customer shall have a number of Guarantors, the liability hereunder shall be mutually dependent, jointly and severally, and the Bank shall at its sole discretion, be entitled to collect from any one or more of the Guarantors, the full Guaranteed Amount or any part thereof. The liability of each one of the Guarantors shall not be affected by reason of any of the other Guarantors not having the capacity to be bound as Guarantors, or as a consequence of the Bank releasing them from their liability or returning to them the collateral that they delivered to the Bank.
- STATUTE OF LIMITATIONS** 27. We hereby waive all our rights to plead prescription under any law in force at such time in all matters relating to this Guarantee and we hereby agree that the fact that the Bank does not immediately exercise its rights hereunder or in connection herewith in any given event shall not be deemed a waiver of such rights, nor a consent or acknowledgment by the Bank, nor shall it be deemed to create any precedent and the Bank shall be entitled to exercise the rights deriving from this document and/or in connection herewith and/or the law at such time as it may deem fit.
- RATIFICATION** 28. We hereby undertake to sign all such documents and forms as the Bank may require, if and insofar as under any or some of the laws of the State of Israel, our signing of any such document or form is or shall be deemed to be required, at the Bank's sole discretion, in order to make the present document fully valid and effective. In compliance with the provisions of this Clause, we hereby appoint the Bank as our principal attorney, either itself or through such person to whom the Bank may delegate its powers, to sign all such documents and forms as may be requested by the Bank, and the Bank or any party acting on its behalf shall in no way be liable to us in respect of any act or omission whatsoever made thereby under or by virtue of this Clause. The said appointment shall be irrevocable as the rights of the Bank are dependent thereon and full consideration has been given by the Bank therefor by the Bank advancing the Credit to the Customer.
- NOTICES** 29. Any notice, demand, request, consent, approval, declaration, or other communication hereunder shall be deemed to have been duly given or served on the date on which personally delivered, or - if mailed to us by the Bank through the post by registered or ordinary mail to the addresses set out below or to such other address in Israel of which we shall notify the Bank in writing shall be deemed to have been duly received by the addressee five (5) business days after the date of delivery of the letter for dispatch. A written statement by the Bank shall constitute sufficient proof of the time and posting of the notice.
- STAMPING AND EXPENSES** 30. Stamp duty payable in respect of this Guarantee and all such other expenses as relate to the enforcement hereof or the realization of any collateral delivered in connection herewith, including the Bank's advocate's fees, shall be borne by us and secured by this Guarantee.
- WAIVER OF PRIOR NOTICE** 31. We hereby waive the need for dispatching any notarial or other warnings in all matters in connection with this Guarantee.
- GOVERNING LAW AND JURISDICTION** 32. The laws of the State of Israel shall govern this Guarantee and we hereby agree that the city of Tel Aviv-Jaffa, State of Israel, shall be the place of jurisdiction for the purposes of this Guarantee, provided that the Bank shall be entitled to institute proceedings against us in any such other competent court as it may deem fit.
- MARGINAL NOTES** 33. The marginal notes in this Guarantee have been inserted for ease of reference only and shall not be utilized as a means of interpreting the intentions of the parties or the interpretation of this Guarantee.

ADDENDA

34. SPECIAL CONDITIONS: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

IN WITNESS WHEREOF THE PARTIES HERETO HAVE HEREUNTO EXECUTED THIS GUARANTEE ON THIS  
12 DAY OF March 2019

NAME OF GUARANTORS

Date	Name of Guarantor	Address (in Israel only)	Company/Id. No.	Signature
Ma March 12, 2019	Itamar Medical, Inc.	c/o Itamar Medical Ltd. Halamish 9, Caesarea, Israel	3213646	

VERIFICATION OF GUARANTORS SIGNATURES

I, the undersigned, hereby verify that the Guarantor/s whose names appear hereunder, have signed before me on the dates stipulated above next to their names/signatures on this Guarantee and have been identified by me in accordance with an identification document and I have explained to them the contents and significance of this Guarantee after they have confirmed to me that they have read it.

Name of Guarantor*	Bank Officer's Full Name	Position	Bank Officer's Signature	Date of Bank Officer of Signature 03.12.2019
Itamar Medical, Inc. By /s/ Shy Basson /s/ Gilad Glick				

\* First and Surname/Corporate Name (In case of corporate Guarantor – in addition, the name of the authorized signatory signing on behalf of the Corporation must be completed

UNLIMITED SECURITY AGREEMENT

THIS SECURITY AGREEMENT ("**Security Agreement**") is made and entered into as of the 12<sup>th</sup> day of March, 2019 (the "**Execution Date**") by and between Itamar Medical Inc., a *Delaware* Corporation, c/o Itamar Medical Ltd., 9 Halamish St., Caesarea, Israel USA ("**Guarantor**"), and Mizrahi Tefahot Bank Ltd., Israel (the "**Bank**").

**WHEREAS** Itamar Medical Ltd., the parent company of Guarantor ("**Affiliated Company**") has, or may have, obtained in the past, pursuant to previous agreements and transactions with the Bank, and intends to obtain – in the future - additional credit lines, loans, banking facilities, credit and other miscellaneous banking services from the Bank (hereinafter jointly and severally referred to as the "**Banking Service(s)**") on such terms as have been and/or are in future from time to time agreed in respect of each Banking Service; and

**WHEREAS** in order to induce the Bank to provide the Banking Services to the Affiliated Company, and in consideration of the Bank's agreement to extend such Banking Services to the Affiliated Company, it has been agreed between the Guarantor and the Bank that the Guarantor will guarantee all of the Affiliated Company's debts and liabilities to the Bank of any kind whatsoever related to the Banking Services, whether in Israeli currency, in United States Dollars, or in any other currency whatsoever, all as set forth in the Guarantee Agreement entered into between the parties hereto, dated March 12, 2019 (the "**Guarantee Agreement**"), and will secure all of its undertakings and obligations, all as set out in this Security Agreement below;

**NOW, THEREFORE**, in consideration of the premises and of the mutual covenants herein contained and for other good and valuable consideration, the receipt of which is hereby acknowledged, the parties hereto agree as follows:

1. **Defined Terms.** The following terms shall have the following meanings (such meanings being equally applicable to both the singular and plural forms of the terms defined):

"**Accounts**" shall mean any "account," as such term is defined in section 9-102(a)(2) of the UCC, now owned or hereafter acquired by the Guarantor and, in any event, shall include, without limitation, all accounts receivable, book debts, and other forms of obligations now owned or hereafter received or acquired by or belonging or owing to the Guarantor (including, without limitation, under any trade names, styles, or divisions thereof) whether arising out of goods sold or services rendered by the Guarantor or from any other transaction, whether or not the same involves the sale of goods or services by the Guarantor (including, without limitation, any such obligation that might be characterized as an account or contract right under the UCC) and all of the Guarantor's rights in, to, and under all purchase orders or receipts now owned or hereafter acquired by it for goods or services, and all of the Guarantor's rights to any goods represented by any of the foregoing (including, without limitation, unpaid seller's rights of rescission, replevin, reclamation, and stoppage in transit, and rights to returned, reclaimed, or repossessed goods), and all moneys due or to become due to the Guarantor under all contracts for the sale of goods or the performance of services or both by the Guarantor (whether or not yet earned by performance on the part of the Guarantor or in connection with any other transaction), now in existence or hereafter occurring, including, without limitation, the right to receive the proceeds of such purchase orders and contracts, and all collateral security and guaranties of any kind given by any person or entity with respect to any of the foregoing.

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**"Chattel Paper"** shall mean any "chattel paper," as such term is defined in section 9-102(a)(11) of the UCC, now owned or hereafter acquired by the Guarantor.

**"Collateral"** shall have the meaning assigned to such term in Section 5 of this Security Agreement.

**"Contracts"** shall mean all contracts, undertakings, or other agreements (other than rights evidenced by Chattel Paper, Documents, or Instruments) under which the Guarantor may now or hereafter have any right, title or interest, including, without limitation, with respect to an Account, any agreement relating to the terms of payment or the terms of performance thereof.

**"Copyrights"** shall mean all of the following now or hereafter acquired by the Guarantor: (i) all copyrights, registrations, and applications therefor; (ii) all renewals and extensions thereof; (iii) all income, royalties, damages, and payments now and hereafter due or payable or both with respect thereto, including, without limitation, damages and payments for past or future infringements or misappropriations thereof; (iv) all rights to sue for past, present, and future infringements or misappropriations thereof; and (v) all other rights corresponding thereto throughout the world.

**"Deposit Accounts"** shall mean any "deposit account" as such term is defined in section 9-102(a)(29) of the UCC, now owned or hereafter acquired by the Guarantor.

**"Documents"** shall mean any "documents," as such term is defined in section 9-102(a)(30) of the UCC, now owned or hereafter acquired by the Guarantor.

**"Equipment"** shall mean any "equipment," as such term is defined in section 9-102(a)(33) of the UCC, now owned or hereafter acquired by the Guarantor and, in any event, shall include, without limitation, all machinery, equipment, furnishings, fixtures, vehicles, computers, and other electronic data-processing and other office equipment now owned or hereafter acquired by the Guarantor and any and all additions, substitutions, and replacements of any of the foregoing, wherever located, together with all attachments, components, parts, equipment, and accessories installed thereon or affixed thereto.

**"Event of Default"** shall mean any Event of Default as defined in Section 10 herein.

**"General Intangibles"** shall mean any "general intangibles," as such term is defined in section 9-102(a)(42) of the UCC, now owned or hereafter acquired by the Guarantor and, in any event, shall include, without limitation, all right, title, and interest that the Guarantor may now or hereafter have in or under any Contract, all customer lists, Copyrights, Trademarks, Patents, rights in intellectual property, Licenses, permits, Trade Secrets, proprietary or confidential information, inventions (whether patented or patentable or not), technical information, procedures, designs, knowledge, know-how, software, data bases, data, skill, expertise, experience, processes, models, drawings, materials, and records now owned or hereafter acquired by the Guarantor, goodwill, and rights of indemnification.

"**Hereby**," "**herein**," "**hereof**," "**hereunder**" and words of similar import refer to this Security Agreement as a whole (including, without limitation, any schedules hereto) and not merely to the specific section, paragraph, or clause in which the respective word appears.

"**Instruments**" shall mean any "instrument," as such term is defined in section 9-102(a)(47) of the UCC, now owned or hereafter acquired by the Guarantor, other than instruments that constitute, or are a part of a group of writings that constitute, Chattel Paper.

"**Intellectual Property**" shall mean all of the Copyrights, Licenses, Patents, Trademarks, and Trade Secrets of Guarantor.

"**Inventory**" shall mean all "inventory," as such term is defined in section 9-102(a)(48) of the UCC, now owned or hereafter acquired by the Guarantor and, in any event, shall include, without limitation, all inventory, merchandise, goods, and other personal property now owned or hereafter acquired by the Guarantor which are held for sale or lease or are furnished or are to be furnished under a contract of service or which constitute raw materials, work in process, or materials used or consumed or to be used or consumed in the Guarantor's business, or the processing, packaging, delivery, or shipping of the same, and all finished goods.

"**Investment Property**" means (i) a security, whether certificated or uncertificated, (ii) a security entitlement, (iii) a securities account, (iv) a commodities contract, or (v) a commodities account, all as defined in Article 9 of the UCC.

"**License**" shall mean any Patent License, Trademark License, or other license as to which the Bank has been granted a security interest hereunder.

"**Liens**" shall mean, with respect to any asset, (a) any mortgage, deed of trust, lien, pledge, hypothecation, encumbrance, charge or security interest in, on or of such asset, (b) the interest of a vendor or a lessor under any conditional sale agreement, capital lease or title retention agreement (or any financing lease having substantially the same economic effect as any of the foregoing) relating to such asset and (c) in the case of securities, any purchase option, call or similar right of a third party with respect to such securities.

"**Patent License**" shall mean any written agreement granting any right to practice any invention on which a Patent is in existence, now owned or hereafter acquired by the Guarantor.

"**Patents**" shall mean all of the following now or hereafter acquired by the Guarantor: (i) all patents and patent applications throughout the world, whether arising under U.S. federal law, state law, common law or the law of any other jurisdiction; (ii) all inventions and improvements described and claimed therein; (iii) all reissues, divisions, continuations, renewals, extensions, and continuations-in-part thereof; (iv) all income, royalties, damages and payments now and hereafter due and/or payable to the Guarantor with respect thereto, including, without limitation, damages and payments for past, present or future infringements or misappropriations thereof; (v) all rights to sue for past, present, and future infringements or misappropriations thereof; and (vi) all other rights corresponding thereto throughout the world.

**"Proceeds"** shall mean "proceeds," as such term is defined in section 9-102(a)(64) of the UCC and, in any event, shall include, without limitation, (i) any and all proceeds of any insurance, indemnity, warranty or guaranty payable to the Guarantor from time to time with respect to any of the Collateral; (ii) any and all payments (in any form whatsoever) made or due and payable to the Guarantor from time to time in connection with any requisition, confiscation, condemnation, seizure, or forfeiture of all or any part of the Collateral by any governmental body, authority, bureau, or agency (or any person acting under color of governmental authority); and (iii) any and all other amounts from time to time paid or payable under or in connection with any of the Collateral.

**"Secured Sums"** shall have the meaning defined in Section 2 herein.

**"Security Agreement"** shall mean this Security Agreement, as the same may from time to time be amended, modified, or supplemented pursuant to Section 19 of this Security Agreement, and shall refer to this Security Agreement as in effect on the date such reference becomes operative.

**"Trade Secrets"** shall mean trade secrets, along with any and all (i) income, royalties, damages, and payments now and hereafter due and/or payable to the Guarantor with respect thereto, including, without limitation, damages and payments for past or future infringements or misappropriations thereof; (ii) rights to sue for past, present, and future infringements or misappropriations thereof; and (iii) all other rights corresponding thereto throughout the world.

**"Trademark License"** shall mean any written agreement granting any right to use any Trademark or Trademark registration, now owned or hereafter acquired by the Guarantor.

**"Trademarks"** shall mean all of the following now owned or hereafter acquired by the Guarantor: (i) all trademarks (including service marks and trade names, whether registered or at common law), registrations and applications therefor, and the entire product lines and goodwill of the Guarantor's business connected therewith and symbolized thereby; (ii) all renewals thereof; (iii) all income, royalties, damages, and payments now and hereafter due or payable or both with respect thereto, including, without limitation, damages and payments for past, present, or future infringements or misappropriations thereof; (iv) all rights to sue for past, present, and future infringements or misappropriations thereof; and (v) all other rights corresponding thereto throughout the world.

**"UCC"** shall mean the Uniform Commercial Code as the same may, from time to time, be in effect in the State of Delaware; provided, however, in the event that, by reason of mandatory provisions of law, any or all of the attachment, perfection or priority of security interest in any Collateral is governed by the Uniform Commercial Code as in effect in a jurisdiction other than the State of Delaware the term "UCC" shall mean the Uniform Commercial Code as in effect in such other jurisdiction for purposes of the provisions hereof relating to such attachment, perfection, or priority and for purposes of definitions related to such provisions.

2. Secured Obligations. This Unlimited Security Agreement has been executed to secure the full and punctual payment of all the amounts, whether in New Israeli Shekels, in United States Dollars or in any foreign currency, now and in future due to the Bank from the Guarantor and/or from the Affiliated Company, in any manner or way and for any reason, whether or not the amounts are due from the Affiliated Company in connection with the provision of the Banking Services, whether due from the Affiliated Company alone or together with others, whether the Affiliated Company has already become liable for them or becomes liable for them in the future, as debtor and/or guarantor and/or otherwise (including the Affiliated Company's liability in accordance with bills that have been or are in the future delivered to the Bank either by the Affiliated Company or by third parties for discounting or as security and/or pursuant to any other liability of the Affiliated Company to the Bank), that are now and/or in future due, payable prior to or after realization of the collateral hereby given, absolutely or contingently due, pursuant to the Affiliated Company's original obligation or formulated in a court judgment or otherwise, in an unlimited amount, plus any and all accrued interest, commissions and all expenses whatsoever, including the costs of realization, advocates' professional fees, insurance fees and other payments pursuant to this Security Agreement, with the addition of any sums of any type now or in the future due from the Affiliated Company to the Bank in any way in respect or as a result of linkage to any index or rate of exchange, including, without limitation, any such linked principal and linked interest (all the foregoing amounts being hereinafter referred to as the "**Secured Sums**").

3. Realization of Collateral. Upon the following, the Bank shall be entitled to exercise all rights and remedies of a secured party under the UCC, and may collect, receive, appropriate, and realize upon the Collateral, or any part thereof, and/or may forthwith sell, lease, assign, give an option or options to purchase, or sell or otherwise dispose of and deliver such Collateral (or contract to do so), or any part thereof, and all such proceeds shall be used to pay the Bank all of the Secured Sums:

(a) on the due date of the Secured Sums (or any part thereof), if it has been agreed between the Bank and the Affiliated Company that the particular amount is payable on a particular date (giving effect to any grace periods as agreed between the Bank and the Affiliated Company or the Guarantor in writing), and the Affiliated Company has not paid such Secured Sums;

(b) at the end of ten (10) days from the date of receipt by Guarantor of the Bank's first written demand to the Guarantor, if a due date has not been agreed as provided in paragraph (a) above, if such Secured Sums have not been paid by Affiliated Company;

(c) the occurrence of an Event of Default.

#### 4. Interest.

(a) The Bank shall compute interest on the Secured Sums at such rate as has been or is in future from time to time agreed between it and the Affiliated Company. In cases in which the interest rate has not been agreed, the Bank may fix the interest rate for any part of the Secured Sums for which the Affiliated Company and Bank have not agreed on an interest rate, and give notice thereof to the Affiliated Company in accordance with interest rates customary at the Bank at such time. The Affiliated Company and/or Guarantor shall be charged such interest rates as aforesaid and the Bank may add them to principal at the end of each quarter or at the end of any other period, as determined by it.

(b) In an event of default in payment of all or any of the Secured Sums, they shall bear default interest at the rate agreed upon in the agreement for the provision of the Banking Services. In the absence of a provision with regard to default interest in those agreements, the Secured Sums shall bear interest at the maximum rate prevailing at the Bank in respect of unauthorized withdrawals and defaults on an approved overdraft account, but not less than 2% (two percent) more than the interest rate fixed in the agreement for the provision of any Banking Service.

(c) In the event that the Bank becomes entitled to realize the Collateral under this Security Agreement it may increase the interest rates of the Secured Sums, commencing at such time when the Bank becomes entitled to realize the Collateral to the maximum rate prevailing at the Bank in respect of unauthorized withdrawals and defaults on an approved overdraft account.

#### 5. Grant of Security Interest.

(a) As collateral security for the punctual and full payment and performance when due (whether at stated maturity, by acceleration, or otherwise) of all the Secured Sums, and to induce the Bank to provide the Banking Services to the Affiliated Company, the Guarantor hereby grants to the Bank, a first priority lien on, and security interest in, to, and under the following property, now owned or hereafter acquired by the Guarantor (all of which being hereinafter collectively called the "**Collateral**"):

- (i) all Accounts, including, without limitation, all accounts receivable set forth in **Schedule A** attached hereto;
- (ii) all Chattel Paper;
- (iii) all Contracts;
- (iv) all Copyrights;
- (v) all Deposit Accounts other than the Deposit Accounts identified on **Schedule I** attached hereto;
- (vi) all Documents;
- (vii) all Equipment;



- (viii) all General Intangibles;
- (ix) all Instruments;
- (x) all Inventory;
- (xi) all Investment Property;
- (xii) all Patents;
- (xiii) all Patent Licenses;
- (xiv) all Trademarks;
- (xv) all Trade Secrets;
- (xvi) all Trademark Licenses;
- (xvii) the Company's goodwill, as currently and at any time in future existing;
- (xviii) all other goods and personal property of the Guarantor whether tangible or intangible or whether now owned or hereafter acquired by the Guarantor and wherever located; and
- (xix) to the extent not otherwise included, all Proceeds of each of the foregoing and all accessions to, substitutions, and replacements for, and rents, profits and linkage thereon, and products of each of the foregoing.
- (xx) any and all Intellectual Property owned or that shall be owned by the Guarantor, or to which it is or shall be entitled or that it possesses or shall possess any proprietary or other rights thereto, by virtue of any law, agreement or any other source whatsoever, including without limitation all Intellectual Property listed in **Schedule B**, including but not limited to all information or materials in any shape or form, relating to research, development, specifications, formulas, algorithms, prototypes, computer programs, records, data, designs, concepts, ideas, methods, techniques, processes, samples, trade secrets, analyses, materials, patents, pending patent applications, registered trademarks, pending trademark applications, and applications for registration, other data and information, as well as any improvements and derivatives thereof; and any and all Proceeds of the foregoing and all accessions to, substitutions, and replacements for, and rents, profits, and products of the foregoing.

The Guarantor hereby confirms that the list attached hereto as **Schedule B**, constitutes all of the Guarantor's Intellectual Property, including all patents, pending patent applications, registered trademarks, pending trademark applications, and applications for registration, to this date.

- (b) The Guarantor agrees to deliver promptly or cause to be delivered to the Bank all Pledged Shares, and any and all certificates or other instruments or documents representing any of the Collateral (together with any necessary endorsement). All Pledged Shares delivered to the Bank shall be accompanied by undated stock powers duly executed in blank (in form as attached in **Schedule C**) or other instruments of transfer satisfactory to the Bank and by such other instruments and documents as the Bank may reasonably request. Such stock powers and other documents and instruments shall be held by the Bank in escrow and may be executed by the Bank - at its sole and absolute discretion - only upon the occurrence of an Event of Default.
- (c) Upon signing this Agreement, and each time Schedule A is updated, Guarantor shall execute and deliver to bank, in a form as attached hereto in **Schedule D**, a specific assignment of such accounts of borrower listed in Schedule A.
- (d) The security interest that has been given to the Bank pursuant to this Security Agreement is of perpetual character notwithstanding settlement of all or any of the Affiliated Company's accounts and it shall remain in force until this Security Agreement is terminated pursuant to the provisions of Section 14 below.
- (e) Should the Bank have or in future be given collateral or guarantees for payment of the Secured Sums, all the collateral and guarantees shall be independent of each other.
- (f) Should the Bank compromise with or grant forbearance or a concession to the Affiliated Company, or should the Bank alter the Affiliated Company's obligations in connection with the Secured Sums or release or waive other collateral or guarantees, the same shall not alter the nature of the collateral created pursuant to this Security Agreement and all the collateral and obligations of the Guarantor pursuant to this Security Agreement shall remain in full force and effect in accordance with the terms of the Security Agreement.
- (g) The Bank shall have rights of possession, lien and set-off over all the amounts, assets and rights, including securities, currency, gold, bank notes and documents for goods, insurance policies, bills, checks, obligations, deposits, collateral and the proceeds thereof, that are at the Bank at any time to or for the credit of the Guarantor, including those given for collection, security, safe keeping or otherwise. The Bank may withhold the said assets until full discharge of the Secured Sums or sell them and apply all of the proceeds of sale to the discharge of the Secured Sums, in accordance with the terms of this Security Agreement.
- (h) The Bank may at any time charge any of Guarantor's accounts held with it with any outstanding amount now or in future due to it from the Guarantor and apply the entire amount that it receives from or for the Guarantor to the credit of such amount as it deems fit, and transfer any amount standing to the Guarantor's credit in any account with it to any other account with it as the Bank deems fit.

**6. Rights of the Bank: Limitations on the Bank's Obligations.**

(a) The Bank shall have no obligation or liability under any contract by reason of or arising out of this Security Agreement or the granting to the Bank of a security interest therein or the receipt by the Bank of any payment relating to any contract pursuant hereto, nor shall the Bank be required or obligated in any manner to perform or fulfill any of the obligations of the Guarantor under or pursuant to any contract, or to make any payment, or to make any inquiry as to the nature or the sufficiency of any payment received by it or the sufficiency of any performance by any party under any contract, or to present or file any claim, or to take any action to collect or enforce any performance or the payment of any amounts which may have been assigned to it or to which it may be entitled at any time or times.

(b) So long as no Event of Default shall have occurred, the Guarantor shall be entitled to exercise all voting rights pertaining to the Pledged Shares and to give consents, waivers and ratifications in respect thereof, provided however that the Guarantor shall not vote or give any consent, waiver, or ratification if the effect thereof would in the reasonable judgment of the Bank impair the stock secured or pledged hereby or be inconsistent with or result in any violation of the provisions of this Security Agreement, and Guarantor shall notify the Bank regarding any shareholder action that may impair the Bank's rights under this Security Agreement and the Bank shall have the exclusive right to vote any and all of the Pledged Shares and to give consents, waivers and ratifications in respect thereof, and the Guarantor shall deliver to the Bank such proxies or other documents and instruments as the Bank may request to further effectuate the foregoing. After the occurrence and during the continuance of an Event of Default, the Bank shall have the exclusive right to vote any and all of the Pledged Shares and to give consents, waivers and ratifications in respect thereof, and the Guarantor shall deliver to the Bank such proxies or other documents and instruments as the Bank may request to further effectuate the foregoing. For these purposes, the Guarantor designates and appoints the Bank as the Guarantor's agent and attorney-in-fact for purposes of executing such documents and instruments as the Bank may consider necessary or appropriate for purposes of implementing this Agreement. The foregoing designation and appointment is irrevocable and coupled with an interest.

(c) The Bank shall not be liable for failure to collect or realize upon the Collateral, or for any delay in so doing, nor shall it be under any obligation to take any action whatsoever with regard thereto. If an Event of Default has occurred and had not been cured during the applicable cure period, the Bank may thereafter, without notice, exercise all rights, privileges or options pertaining to any Pledged Shares and/ or to the Collateral as if it were the absolute owner thereof, upon such terms and conditions as it may determine, all without liability except to account for property actually received by it, but the Bank shall have no duty to exercise any of the aforesaid rights, privileges or options and shall not be responsible for any failure to do so or delay in so doing.

7. Representations and Warranties. The Guarantor hereby represents and warrants that:

(a) Except for the security interest granted to the Bank pursuant to this Security Agreement, the Guarantor is the sole owner of each item of the Collateral in which it purports to grant any interest hereunder, having good and marketable title and unlimited rights thereto, free and clear of any and all Liens, assignments, restrictions, and any current or future rights whatsoever.

(b) No effective security agreement, financing statement, equivalent security or lien instrument, or continuation statement covering all or any part of the Collateral is on file or of record in any public office, except such as may have been filed by the Guarantor in favor of the Bank pursuant to this Security Agreement.

(c) The Affiliated Company is an Israeli Company. The Affiliated Company's registered office is at 9 Halamish Street, P.O. Box 3579, Caesarea 3088900, Israel. Guarantor is a fully-held subsidiary of the Affiliated Company, on a fully diluted and as-converted basis.

(d) Guarantor's exact legal name is as set forth in the preamble to this Agreement and Guarantor is not generally known by or using any fictitious or other name or trade name or style. Guarantor's address is at 3290 Cumberland Club Drive, Suite 100, Atlanta, GA 30339, USA. Guarantor's address in Israel, to which any and all documents could legally be delivered, is at 9 Halamish Street, P.O. Box 3579, Israel.

(e) There is no legal, contractual or other restraint or condition prohibiting the transfer, charge or pledge of the Collateral, or of any part thereof.

(f) Guarantor is entitled to pledge or charge the Collateral pursuant to this Security Agreement.

(g) No assignment of right or other transaction has been made that derogates from the value of the Collateral as in effect on the date of this Security Agreement.

(h) Guarantor has received the necessary consents and/or waivers (if any) from its directors and stockholders pursuant to the certificate of incorporation and by-laws of Guarantor or the various investment agreements. A copy of the resolutions of the Guarantor's board of directors and shareholders' meetings approving the execution of this agreement and the grant of a security interest under the terms and conditions herein are attached hereto as **Schedule E**. No additional consents or waivers are necessary.

(i) Upon the appropriate UCC Financing Statements having been filed in the State of Delaware, this Security Agreement is effective to create and perfect a valid and continuing first priority charge on, and first priority perfected security interest in, the Collateral, with respect to which a security interest may be perfected by filing pursuant to the UCC, in favor of the Bank, prior to all other Liens, and is enforceable as such against creditors.

(j) Upon the appropriate filings and/or statements having been filed with the United States Patent and Trademark Office ("USPTO") if and to the extent applicable, and upon the filings of the UCC Financing Statement in the state of [Delaware], this Security Agreement is effective to create and perfect a valid and continuing first priority security interest in, and/or floating charge on, the respective Intellectual Property that is pledged in favor of the Bank, if any, prior to all other Liens, and is enforceable as such against creditors. As of the date of Execution of this Agreement, the Guarantor hereby represents and warrants that it is not the owner of any Patents or Trademarks.

(k) Upon entering into the Account Control Agreement, attached hereto as **Schedule F**, and upon the filings of the UCC Financing Statement in the state of Delaware, this Security Agreement is effective to create and perfect a valid and continuing, first priority security interest in, and/or floating charge on the Deposit Accounts in favor of the Bank, prior to all other Liens, and is enforceable as such against creditors, all subject to applicable bankruptcy, insolvency, reorganization or other similar laws generally affecting the enforcement of the rights of creditors and equitable principles (regardless of whether enforcement is sought in equity or at law).

(l) Except for the filing of Financing Statements under the UCC and the filing of this Agreement with the USPTO, if and to the extent applicable, and entering into the attached Account Control Agreement no authorization, approval or other action by, and no notice to or filing with, any governmental or regulatory authority, agency or office is required for the grant by the Guarantor or the effectiveness of the first priority security interest granted hereby or for the execution, delivery and performance of this Agreement by the Guarantor.

(m) The Guarantor is the owner and/or holds the rights of use under license or agreement, of all the intellectual property currently used for the purpose of its business; and

(n) The Guarantor is not currently in breach and there are no proceedings against it in connection with any breach of any intellectual property rights of any third party

8. Covenants. The Guarantor covenants and agrees with the Bank that from and after the date of this Security Agreement and until this Security Agreement is terminated pursuant to Section 14 below, unless compliance is waived by the Bank in writing:

(a) Guarantor shall properly preserve the Collateral. On the date hereof and as of the date of any future delivery of Collateral to the Bank and at all times until the security interests granted by this Agreement are terminated pursuant to Section 14 hereof: (A) the Guarantor shall maintain ownership of such Collateral, unless conveyed during the ordinary course of business, subject to no adverse claim (including any lien, encumbrance or claim of legal or beneficial ownership), except the lien and security interest in favor of the Bank; (B) the Guarantor shall provide that at all times it will have full power, authority and legal right to pledge the Collateral to the Bank hereunder, and no consent, approval or other authorization of any person or governmental authority is required (except those which have been obtained) in connection therewith; and (C) the lien of this Agreement constitutes and will constitute a first priority perfected security interest in the Collateral in favor of the Bank.

(b) Guarantor shall notify the Bank forthwith of the imposition of an attachment over the Collateral and/or any of it, and forthwith notify the attacher of the charge in favor of the Bank and at the Guarantor's expense forthwith and without delay take all steps in order to remove the attachment. If the Guarantor does not take such steps as aforesaid the Bank may (but need not) take all steps to remove the attachment, and the Guarantor shall be liable immediately to pay the Bank all actual and reasonable expenses involved therein (including the professional fees of the Bank's advocates);

(c) Guarantor shall not create any other lien or charge over the Collateral or any of it, and shall not assign and/or license (other than a limited license or similar type of commercial agreement entered into in the ordinary course of business) any right that the Guarantor has in the Collateral without obtaining the Bank's prior written consent which shall not be unreasonably withheld;

(d) The Guarantor shall not issue shares in aggregate constituting more than 10% of the issued share capital to any other shareholder, without the Bank's prior written consent; provided, however, that any shares issued under such threshold shall not be superior to the Shares issued to the Affiliated Company, and shall only be of the classes of stock currently existing at the time of this Agreement.

(e) None of the tangible components of the Collateral shall be maintained at locations other than in the address as stated above or otherwise leased by Guarantor and/or by Affiliated Company. In the event that Guarantor, after the date hereof, intends to store or otherwise deliver any portion of the Collateral to a bailee, then Guarantor will first receive the written consent of the Bank, and such bailee must acknowledge in writing that the bailee is holding such Collateral for the benefit of the Bank. All inventory is in all material respects of good and marketable quality, free from material defects.

(f) Guarantor shall be responsible for the genuineness and accuracy of all signatures, endorsements and particulars on bills, documents and securities that have been and/or are in future given to the Bank by Guarantor as collateral;

(g) Guarantor shall pay on due date all the taxes, municipal rates, levies and other mandatory payments legally imposed over the Collateral and shall furnish the Bank, on demand, with all the receipts for such payments, and if the Guarantor does not duly make such payments, the Bank may make them at the Guarantor's expense and charge it the payments, plus expenses and interest at the then maximum rate prevailing at the Bank in respect of unauthorized withdrawals and defaults on an approved overdraft account. Those payments are secured by this Security Agreement;

(h) Guarantor shall keep books of account and permit the Bank or its representative at any time, upon a reasonable prior notification to Guarantor, during normal business hours and subject to customary non-disclosure restrictions, to examine the Guarantor's books.

(i) Guarantor undertakes to assist the Bank or its representatives and to give them on demand balance sheets, documents and any information reasonably required by the Bank, including explanations in connection with the financial and operational state of the Guarantor, its subsidiaries, and/or its business;

(j) There shall be no material change to the business of the Guarantor or its subsidiaries (if any) without the Bank's prior written consent.

(k) At the sole expense of the Guarantor, the Guarantor will promptly, but no later than 15 days after the Execution Date to file a UCC-1 Financing Statement in substantially the form of **Schedule G** (the “**UCC Financing Statement**”) and any additional necessary and required financing statements under the UCC with respect to the Liens and security interests granted hereby. Guarantor will also promptly, following the request of the Bank, duly execute and deliver any and all such further instruments and documents and take such further action as the Bank may reasonably deem desirable to obtain the full benefits of this Security Agreement and of the rights and powers herein granted. The Guarantor shall file all necessary continuation statements from time to time under the applicable provisions of Article 9 of the UCC in order to maintain the perfection of the Collateral. The Guarantor also hereby authorizes the Bank to file any such financing statement or continuation statement (including a notice that any disposition of the Collateral, by either the Debtor or any other Person, shall be deemed to violate the rights of Lenders under the Code) without the signature of the Guarantor to the extent permitted by applicable law.

(l) At the sole expense of the Guarantor, the Guarantor will promptly, but no later than 30 days after the Execution Date, record a security interest with the USPTO, if and to the extent applicable, including, *inter alia*, file this Agreement and any additional necessary and required filings and/or statements with respect to the Liens and security interests granted hereby, with the USPTO. Guarantor will also promptly, following the request of the Bank, duly execute and deliver any and all such further instruments and documents and take such further action as the Bank may reasonably deem desirable to obtain the full benefits of this Security Agreement and of the rights and powers herein granted. The Guarantor also hereby authorizes the Bank to file any such documents without the signature of the Guarantor to the extent permitted by applicable law;

(m) The Guarantor will promptly, but no later than 3 business days from the Execution Date, enter into the attached Account Control Agreement;

(n) Guarantor undertakes not to enter into any account control agreement with respect to any of its existing or future Deposit Accounts, without the Bank's prior written consent.

(o) In any suit, proceeding, or action brought against the Bank by a third party, relating to any part of the Collateral, the Guarantor will save, indemnify, and keep the Bank harmless from and against all expense, loss, or damage suffered by reason of any defense, setoff, counterclaim, recoupment, or reduction of liability whatsoever of the obligor thereunder, arising out of a breach by the Guarantor of any obligation thereunder or arising out of any other agreement, indebtedness, or liability at any time owing to, or in favor of, such obligor or its successors from the Guarantor, and all such obligations of the Guarantor shall be and remain enforceable against and only against the Guarantor and shall not be enforceable against the Bank;

(p) Guarantor will not create, permit, or suffer to exist, any Lien on the Collateral, will defend the Collateral against, and take such other action as is necessary to remove any unauthorized Lien on the Collateral, and will defend the right, title, and interest of the Bank in and to any of the Guarantor's rights under the Collateral;

(q) Guarantor hereby agrees that if the Guarantor changes its name, its type of organization or its state of organization, the Guarantor will promptly thereafter notify the Bank in writing of the additions or changes. Guarantor will not change its state of incorporation or its name, identity, or corporate structure in any manner that might make any financing or continuation statement filed in connection herewith seriously misleading within the meaning of section 9-503 of the UCC (or any other then applicable provision of the UCC) unless the Guarantor shall have given the Bank at least thirty (30) days' prior written notice thereof and shall have taken all action (or made arrangements to take such action substantially simultaneously with such change if it is impossible to take such action in advance) necessary or reasonably requested by the Bank to amend such financing statement or continuation statement so that it is not seriously misleading;

(r) Throughout the subsistence of this Security Agreement, Guarantor undertakes: (i) not to pay its stockholders any loan or funds that the stockholders have lent or do in future lend to the Guarantor or any funds that they have invested and/or do in future invest in the Guarantor without the Bank's prior written consent; (ii) not to declare, pay or set aside dividends on shares of capital stock of itself without the Bank's prior written consent; (iii) not to enter into any related party transactions with Affiliated Company; and (iv) not to enter into any related party transactions with any of Guarantor's and/or Affiliated Company's office holders and/or directors (other than standard and arm's-length employment agreements and service agreements with Guarantor's office holders); *provided, however*, that limitations (i), (ii) and (iii) shall not apply in the event that (and as long as) Affiliated Company remains the sole shareholder of Guarantor.

(s) Upon the execution of this Security Agreement by all parties hereto, the Guarantor shall provide the Bank with a written legal opinion of Guarantor's Counsel in the form attached hereto as **Schedule H**.

(t) No later than 45 days after the Execution Date, Guarantor shall provide the Bank with copies of the UCC Financing Statement certifying the filing of the first priority security interest granted herein;

(u) No later than 45 days after the registration of any Patents or Trademarks with the USPTO, Guarantor shall provide the Bank with an official document evidencing the filing of a copy of this Agreement with the USPTO, if and to the extent applicable, and certifying the filing of the first priority security interest in the Intellectual Property, granted herein;

(v) Guarantor shall file annual franchise tax report and pay annual franchise tax which it is required to file under the laws of the State of Delaware on a timely basis;

(w) Guarantor shall update the Bank of its accounts receivable every six months. Upon such notification, Guarantor shall update **Schedule A** accordingly, and have the updated schedule re-submitted and re-filed; and

(y) In each instance from time to time on a recurring basis in which the collective account balances of the bank accounts denoted with an asterisk on **Schedule I** attached hereto exceed \$200,000 in the aggregate, the Guarantor shall no later than seven (7) days thereafter either reduce such collective balances below \$50,000 or proceed to enter into a deposit account control agreement with such depository institution and the Bank on substantially similar terms to this Agreement.



(z) The account balance of the "Payroll Account" set forth on Schedule I attached hereto shall not exceed \$500,000 in the aggregate, for a period of more than seven (7) consecutive days, and shall only be used for payroll purposes.

(aa) The account balance in the Certificate of Deposit account set forth on Schedule I attached hereto shall not exceed \$110,000 + accruing interest, in the aggregate, and shall only be used to secure payments to the Atlanta offices landlord.

9. Exchange Rate. Having regard to the fact that the amounts that are now and in future due to the Bank from the Guarantor on account of the Secured Sums can be both in Israeli currency and in foreign currency, it is hereby agreed and declared that the Bank, may convert Israeli currency in their possession to foreign currency as necessary for the full or partial discharge of the Secured Sums that are due to the Bank in foreign currency and convert foreign currency in their possession to Israeli currency, at the rates of exchange existing at the time when any such conversions are actually made by either of them.

The expression "**rate of exchange**" means:

(a) in respect of the time when there is a restraint by Israeli law in respect of the free use of foreign currency in Israel - the highest amount of Israeli currency that an Israeli resident is required to pay for a unit of the currency of such debt to an entity duly licensed to trade in Israel in foreign currency, together with the bank commission for such transaction;

(b) in respect of the time when there is no such restraint - the highest price for the purchase of a unit of the currency of such debt existing at the Bank of Israel in respect of bank telegraphic withdrawals on a city for the time being known as one of the financial centers of the state in which the currency of the debt is legal tender or in New York, at the option of the Bank, together with the bank commission for such transaction.

10. Events of Default. Without prejudice to the generality of the provisions of this Security Agreement or any other written agreement between the parties with respect to the Bank's right to call for immediate payment of all or any of the Secured Sums, the Bank may in any of the under-mentioned cases ("**Events of Default**") call for the immediate payment by the Guarantor of all or any of the Secured Sums, without prior notice to the Guarantor and/or the Affiliated Company, unless otherwise stated below:

(a) if Affiliated Company and/or Guarantor fails to pay any payment pursuant to any agreement (including the principal amount, interest, linkage, expenses and/or related fees) to the Bank, when due.

(b) if a voluntary winding-up resolution is passed by the Guarantor and/or the Affiliated Company or if a winding-up order or a suspension of proceedings order is issued against either of the Guarantor and/or the Affiliated Company by the court or if the court calls a creditors meeting for the purpose of finding an arrangement with them or if the Guarantor's and/or the Affiliated Company's name has been removed or is about to be removed from any register operated by law;

(c) if a provisional or permanent receiver, receiver and manager or liquidator is appointed over Guarantor's and/or over any of its subsidiaries' and/or over Affiliated Company's material assets or any of them; or if a petition for the appointment of any of the above has been filed by any party against any asset of either of Guarantor and/or Affiliated Company.

(d) if an attachment (temporary or permanent) covering any obligation is imposed over all or any of the Guarantor's and/or Affiliated Company's assets or over any of the Collateral given by the Guarantor to the Bank or if any act of execution in respect of any obligation is taken against either of them; provided however that in the case of an attachment that was only registered (and which did not remove any assets), then only to the extent that the registered attachment has not been revoked or reversed within 60 days thereafter; Such 60 day period may be shortened by the Bank, if Bank is convinced, upon exercising reasonable judgment, that such delay may impair the Bank's rights, or its ability to collect any amounts owed thereto.

(e) if Guarantor and/or the Affiliated Company stops paying its debts to third parties for a period longer than two months;

(f) if the Affiliated Company's business or a substantial part of it is stopped for three or more weeks, or if Affiliated Company's business or a substantial part of it is shut down; Such time period may be shortened by the Bank, if Bank is convinced, upon exercising reasonable judgment, that such delay may impair the Bank's rights, or its ability to collect any amounts owed thereto.

(g) if Affiliated Company has been declared as a "Limited Customer" or as a "Severe Limited Customer", as such terms are defined in the Israeli Checks Without Cover (bad checks) Law, 1981.

(h) if all or a significant portion of the Affiliated Company's current assets (inventory) are burned, lost or otherwise damaged, and not replaced with insurance proceeds; or if all or a significant portion of the Affiliated Company's fixed assets (including, for avoidance of doubt, manufacturing lines) are burned, lost or otherwise damaged, and the Affiliated Company does not have sufficient inventory to enable continuous sales (at least at the same volume as existing prior to such event);

(i) if more than \$50,000 of the Collateral value is burned, lost or otherwise damaged and not replaced with insurance proceeds;

(j) if there has been a change in the identity of the security holders and/or of the security - holdings of the Guarantor (except in the event of an initial public offering of the Guarantor) without the Bank's prior written approval, or if there has been a change of control in the Affiliated Company ("control" shall have the meaning ascribed to it in the Israeli Securities Law, 1968);

(k) if the Bank, at its reasonable discretion, takes the view that a material change in the Guarantor's financial situation has occurred, that may materially impair Guarantor's ability to dispose of its payment obligation relating to the Secured Sums;

(l) if, at the Bank's reasonable commercial opinion, there is a material deterioration in the value of the Collateral (excluding deterioration due to foreign currency exchange rates);

(m) if Guarantor and/or the Affiliated Company is required to accelerate the discharge of debts that it owes to other creditors;

(n) if Guarantor materially breaches or does not perform any of the covenants set forth in this Security Agreement and/or any of the material obligations that are contained in this Security Agreement and/or any agreement and/or instrument and/or contract made in the past and/or future between the Guarantor and the Bank and which breach or non-performance is not cured within thirty (30) days of receiving notice, except that Guarantor shall have an additional sixty (60) days if Guarantor has commenced performance and such performance will require more than thirty (30) days for compliance; provided, however, that such period may be shortened by the Bank, if Bank is convinced, upon exercising reasonable judgment, that such delay may impair the Bank's rights, or its ability to collect any amounts owed thereto.

(o) if it transpires that any warranty of the Guarantor in this Security Agreement and/or any contract made in the past and/or future between Guarantor and the Bank is incorrect in a material respect and/or inaccurate or incomplete in any material respect;

(p) if Guarantor and/or the Affiliated Company alter any of their charter documents in such manner as to have a material adverse effect on the ability of Affiliated Company to comply with any of its obligations under the loan agreements, and /or on the ability of Guarantor to comply with any of its obligations under this Security Agreement;

(q) if Guarantor and/or the Affiliated Company pass a resolution to merge with another company, whether as absorbing or target company (including, for avoidance of doubt, any action as a result of which Guarantor and/or Affiliated Company purchase assets and/or obligation of another party, or transfers assets in consideration for securities of another party), without the Bank's prior consent which shall not be unreasonably withheld;

(r) if any license, consent, approval or registration of any of the Intellectual Property or the intellectual property rights of the Guarantor and/or the Affiliated Company is denied, becomes void, suspended or is materially prejudiced, and has a material effect on such company.

(s) if Guarantor does not file the appropriate UCC Financing Statements in the State of Delaware; or if Guarantor does not file the necessary continuation statements from time to time under the applicable provisions of Article 9 of the UCC in order to maintain the perfection of the Collateral, or if any other security interest is perfected in the Collateral, having a higher priority over the Bank.

(t) if Guarantor does not file the appropriate filings with the USPTO in order to perfect the Guarantor's security interest in the Guarantor's future Intellectual Property; or if Guarantor does not file the necessary continuation filings, if such are required in order to maintain the perfection of the Intellectual Property Collateral, or if any other security interest is perfected relating to the Intellectual Property having a higher priority over the Bank. For avoidance of doubt, it is hereby explicitly stipulated, that as of the date hereof, Guarantor has no registered Patents, and thus no such filings are currently required.

(u) If the Guarantor shall issue any shares to any other shareholder, without the Bank's prior written consent.

(v) If the Guarantor shall not file annual franchise tax report and pay annual franchise tax which it is required to file under the laws of the State of Delaware on a timely basis.

(w) If an event of default shall be declared by the Bank pursuant to any agreement with either the Affiliated Company or the Guarantor.

11. The Bank's Appointment as Attorney-in-Fact.

(a) Upon any of the events set forth in section 3 above, the Bank may take all the steps it deems fit in order to collect all the Secured Sums, realize the Collateral in any way that the law permits and exercise all its rights pursuant to this Security Agreement, in whole or in part, and apply the proceeds thereof in discharge of the Secured Sums, without the Bank having to enforce or realize any other guarantees or collateral that it might have (whether against Guarantor or against any third party). Upon the giving of such notice (if any) as may be required by law, the Bank may, at its discretion, as the Guarantor's attorney, for which purpose the Guarantor irrevocably appoints the Bank as its attorney, sell the Collateral or any part of it by auction, public sale, private sale or otherwise, itself or through others and on conditions at the Bank's absolute discretion, and the Bank may itself or by the court or execution office realize the Collateral granted to it pursuant to this Security Agreement or otherwise by the appointment of a receiver or receiver and manager on behalf of the Bank (and the Guarantor agrees in advance to any person or legal entity that the Bank appoints or proposes as receiver and manager as aforesaid) at Guarantor's expense and amongst his other powers, he may:

(i) ask, demand, collect, receive, and give acquittances and receipts for any and all moneys due and to become due under any Collateral and, in the name of the Guarantor or its own name or otherwise, to take possession of and endorse and collect any checks, drafts, notes, acceptances, or other instruments for the payment of moneys due under any Collateral and to file any claim or to take any other action or proceeding in any court of law or equity or otherwise deemed appropriate by the Bank for the purpose of collecting any and all such moneys due under any Collateral whenever payable and to file any claim or to take any other action or proceeding in any court of law or equity or otherwise deemed reasonably appropriate by the Bank for the purpose of collecting any and all such moneys due under any Collateral whenever payable;

(ii) pay or discharge taxes, Liens, security interests, or other encumbrances levied or placed on or threatened against the Collateral, to effect any repairs or any insurance called for by the terms of this Security Agreement and to pay all or any part of the premiums therefor and the costs thereof; and

(iii) (A) direct any party liable for any payment under any of the Collateral to make payment of any and all moneys due, and to become due thereunder, directly to the Bank or as the Bank shall direct; (B) receive payment of and receipt for any and all moneys, claims and other amounts due, and to become due at any time, in respect of or arising out of any Collateral; (C) sign and endorse any invoices, freight or express bills, bills of lading, storage or warehouse receipts, drafts against debtors, assignments, verifications, and notices in connection with accounts and other documents constituting or relating to the Collateral; (D) commence and prosecute any suits, actions, or proceedings at law or in equity in any court of competent jurisdiction to collect the Collateral or any part thereof and to enforce any other right in respect of any Collateral; (E) defend any suit, action, or proceeding brought against the Guarantor with respect to any Collateral; and (F) settle, compromise, or adjust any suit, action, or proceeding described above and, in connection therewith, to give such discharges or releases as the Bank may deem appropriate.

(iv) (i) place a "hold" on any account maintained with Guarantor and/or (ii) deliver a notice of exclusive control, any entitlement order, or other directions or instructions pursuant to any Control Agreement or similar agreements providing control of any Collateral (including, without limitation, an Account Control Agreement);

(b) The Bank agrees that, except upon the occurrence and during the continuation of an Event of Default, it will forbear from exercising the power of attorney or any rights granted to the Bank pursuant to this Section 11. The Guarantor hereby ratifies, to the extent permitted by law, all that said attorneys shall lawfully do or cause to be done by virtue hereof. The power of attorney granted pursuant to this Section 11 is a power coupled with an interest and shall be irrevocable until this Security Agreement is terminated pursuant to Section 14 below.

(c) The powers conferred on the Bank hereunder are solely to protect the Bank's interests in the Collateral and shall not impose any duty upon it to exercise any such powers. The Bank shall be accountable only for amounts that it actually receives as a result of the exercise of such powers and neither it nor any of its representatives or agents shall be responsible to the Guarantor for any act or failure to act, except for its own gross negligence, bad faith, misrepresentation, fraud or willful misconduct.

(d) The Guarantor also authorizes the Bank, at any time and from time to time upon the occurrence and during the continuation of any Event of Default, to execute, in connection with the sale provided for in Section 13 hereof, any endorsements, assignments, or other instruments of conveyance or transfer with respect to the Collateral.

12. Performance by the Bank of Guarantor's Obligations. If the Guarantor materially fails to perform or comply with any of its material agreements contained herein and the Bank, as provided for by the terms of this Security Agreement, shall itself perform or comply, or otherwise cause performance or compliance, with such agreement, the reasonable expenses of the Bank incurred in connection with such performance or compliance, together with interest thereon, shall be payable by the Guarantor to the Bank on demand and shall constitute Secured Sums secured hereby.

13. Remedies, Rights Upon Default.

(a) Upon the occurrence of any of the events set forth in Section 3 above, and provided that the Secured Sums had not been fully paid, the Bank will be entitled to exercise in addition to all other rights and remedies granted to it in this Security Agreement and in any other instrument or agreement securing, evidencing, or relating to the Secured Sums, all rights and remedies of a secured party under the UCC. Without limiting the generality of the foregoing, the Guarantor expressly agrees that upon the occurrence of any such Event of Default (and provided that such Event of Default had not been cured during the applicable cure period), the Bank, without demand of performance or other demand, advertisement, or notice of any kind (except the notice specified below of time and place of public or private sale) or upon the Guarantor or any other person (all and each of which demands, advertisements, and/or notices are hereby expressly waived to the maximum extent permitted by the UCC and other applicable law), may forthwith collect, receive, appropriate, and realize upon the Collateral, or any part thereof, and/or may forthwith sell, lease, assign, give an option or options to purchase, or sell or otherwise dispose of and deliver such Collateral (or contract to do so), or any part thereof, in one or more parcels at public or private sale or sales, at any exchange or broker's board or at any of the Bank's offices or elsewhere at such prices on such terms as the Bank may deem commercially best, for cash or on credit or for future delivery without assumption of any credit risk. The Bank shall have the right upon any such public sale or sales, and, to the extent permitted by law, upon any such private sale or sales, to purchase the whole or any part of such Collateral so sold. The Guarantor further agrees, at the Bank's request, to assemble the Collateral and make it available to the Bank at places that the Bank shall reasonably select, whether at the Guarantor's premises or elsewhere. The Bank shall apply the net proceeds of any such collection, recovery, receipt, appropriation, realization, or sale, as provided in Section 13(d) hereof, the Guarantor remaining liable for any deficiency remaining unpaid after such application, and only after so paying over such net proceeds and after the payment by the Bank of any other amount required by any provision of law, including section 9-610 of the UCC, need the Bank account for the surplus, if any, to the Guarantor. To the maximum extent permitted by applicable law, the Guarantor waives all claims, damages, and demands against the Bank arising out of the repossession, retention, or sale of the Collateral except such as arise out of the gross negligence, fraud, misrepresentation, bad faith or willful misconduct of the Bank. The Guarantor agrees that the Bank need not give more than sixty (60) days' prior notice (which notification shall be deemed given when mailed or delivered on an overnight basis, postage prepaid, addressed to the Guarantor at its address referred to in Section 17 hereof with confirmation of receipt) of the time and place of any public sale or of the time after which a private sale may take place and that such notice is reasonable notification of such matters. The Guarantor shall remain liable for any deficiency if the proceeds of any sale or disposition of the Collateral are insufficient to pay all of the Secured Sums.

(b) The Guarantor also agrees to pay all costs of the Bank, including, without limitation, reasonable attorneys' fees, incurred in connection with the enforcement of any of its rights and remedies hereunder.

(c) Except as otherwise set forth in this Security Agreement, the Guarantor hereby waives presentment, demand, protest, or any notice (to the maximum extent permitted by applicable law) of any kind in connection with this Security Agreement or any Collateral.

- (d) The Proceeds of any sale, disposition, or other realization upon all or any part of the Collateral shall be distributed by the Bank in the following order:
- (a) first, in discharge of all expenses incurred in connection with collecting the Secured Sums, including the expenses and remuneration of any receiver and/or manager at such rate as reasonably fixed by the Bank;
  - (b) second, in discharge of the further amounts that are due to the Bank in consequence of the linkage conditions, the interest, damages, commission and expenses now and in future due to the Bank pursuant to this Security Agreement;
  - (c) third, in discharge of the principal of the Secured Sums; and
  - (d) fourth, to pay to the Guarantor, or its representatives or as a court of competent jurisdiction may direct, any surplus then remaining from such Proceeds.

(e) The Bank shall not be required to resort to or pursue any of its rights or remedies under or with respect to any other agreement or any other collateral or charge before pursuing any of its rights or remedies under this Security Agreement. The Bank may pursue its rights and remedies in such order as it determines, and the exercise by the Bank of any right or remedy will not preclude the Bank from exercising any other right or remedy.

(f) Until such time as any of the events set forth in Section 3 above have occurred, the Bank shall not exercise the rights set forth in subsection (a) above, including without limitation giving a Notice of Exclusive Control under the Deposit Account Control Agreement by and among the Bank, the Guarantor and Bank Leumi USA dated as of July 19<sup>th</sup>, 2017 (as such term is defined therein) or the giving of any similar notice under any other deposit account control agreement granting a security interest in any deposit account entered into pursuant to this Agreement or as a result of the Banking Services.

14. Termination. The Bank shall terminate this Security Agreement upon the Guarantor's request provided that there has been the full repayment of all outstanding Secured Sums, all credit lines of the Affiliated Company are cancelled, and there remain no obligations towards the Bank or any outstanding credit facilities either of Guarantor or of Affiliated Company. Upon termination of this Security Agreement the Bank will release the security interest hereunder and will provide the Guarantor with any required approval or executed documents to the Secretary of State of the State of Delaware to remove the security interest in favor of the Bank under this Security Agreement.

15. Appointment of the Bank; Limitation on the Bank's Duty in Respect of Collateral. The Bank shall be obligated and shall have the right hereunder to make demands, to give notices, to exercise or refrain from exercising any rights, and to take or refrain from taking action (including, without limitation, the release or substitution of Collateral) solely in accordance with this Security Agreement, and the Bank shall be bound thereby. So long as the Bank complies with reasonable banking practices, the Bank shall not have any duty as to any Collateral in its possession or control or in the possession or control of any agent or nominee of it or any income thereon or as to the preservation of rights against prior parties or any other rights pertaining thereto, except that the Bank shall use reasonable care with respect to the Collateral in its possession or under its control. Furthermore, neither the Bank nor any of its officers, directors, agents, or employees shall be liable for any action taken or omitted by any of them hereunder or in connection herewith or therewith, unless caused by it or their gross negligence, fraud, misrepresentation, bad faith or willful misconduct. Upon request of the Guarantor, the Bank shall account for any monies received by it in respect of any foreclosure on or disposition of the Collateral.

16. Reinstatement. Subject to the provisions of Section 14 above, this Security Agreement shall remain in full force and effect and continue to be effective should any petition be filed by or against the Guarantor for liquidation or reorganization, should the Guarantor become insolvent or make an assignment for the benefit of creditors, or should a receiver or trustee be appointed for all or any significant part of the Guarantor's assets, and shall continue to be effective or be reinstated, as the case may be, if at any time payment and performance of the Secured Sums, or any part thereof, is, pursuant to applicable law, rescinded or reduced in amount, or must otherwise be restored or returned by any obligee of the Secured Sums, whether as a "voidable preference", "fraudulent conveyance", or otherwise, all as though such payment or performance had not been made. In the event that any payment, or any part thereof, is rescinded, reduced, restored, or returned, the Secured Sums shall be reinstated and deemed reduced only by such amount paid and not so rescinded, reduced, restored, or returned.

17. Notices. Except as otherwise provided herein, whenever it is provided herein that any notice, demand, request, consent, approval, declaration, or other communication shall or may be given to or served upon any of the parties by any other party, or whenever any of the parties desires to give or serve upon any other communication with respect to this Security Agreement, each such notice, demand, request, consent, approval, declaration, or other communication shall be in writing and either shall be delivered in person with receipt acknowledged or sent by registered or certified mail, return receipt requested, postage prepaid, or by facsimile, and confirmed by answerback addressed as follows:

(a) **If to the Bank:**

Mizrahi Tefahot Bank Ltd.  
7 Jabotinsky Street  
Ramat Gan, Israel  
Email: [Dani\\_maor@umtb.co.il](mailto:Dani_maor@umtb.co.il)  
Attention: Dani Maor

with a copy to: E. Landau Law Offices  
7 Jabotinsky Street.  
Ramat Gan, Israel  
Facsimile: 972-2-561-8212  
Attention: Shlomo Farkas, Adv.



**(b) If to the Guarantor:**  
Itamar Medical Inc.  
c/o Itamar Medical Ltd.  
9 Halamish Street, P.O. Box 3579  
Caesarea 3088900, Israel  
Attn: Shy Basson, CFO

Itamar Medical Inc.  
3290 Cumberland Club Drive  
Suite 100, Atlanta, GA 30339  
Attn: Shy Basson, CFO

with a copy to: Itamar Medical Ltd.  
9 Halamish Street, P.O. Box 3579  
Caesarea 3088900, Israel  
Attn: Gil Ashkenazi, Legal Counsel

or at such other address in Israel, as may be substituted by notice given as herein provided. The giving of any notice required hereunder may be waived in writing by the party entitled to receive such notice. Every notice, demand, request, consent, approval, declaration, or other communication hereunder shall be deemed to have been duly given or served on the date on which personally delivered, with receipt acknowledged, telecopied, and confirmed by telecopy answerback, or five (5) Business Days after the same shall have been deposited in the local postal service in Israel or in the U.S. To the extent permitted under applicable law, failure or delay in delivering copies of any notice, demand, request, consent, approval, declaration, or other communication to the persons designated above to receive copies shall in no way adversely affect the effectiveness of such notice, demand, request, consent, approval, declaration, or other communication, unless the recipient thereof has been materially prejudiced by such failure or delay.

Guarantor hereby irrevocably designates, appoints and empowers Mr. Shy Basson, 9 Halamish Street, P.O. Box 3579, Caesarea 3088900, Israel to receive for and on behalf of the Guarantor, any and all notices and/or correspondence relating to this Agreement and/or to Guarantor's relations with the Bank, including without limitation, service of process issued out of the courts of the State of Israel or by or on behalf of the Bank or in any other manner in any legal action or proceedings arising out of or in connection with this Agreement. Any service of process to the above mentioned agent shall be deemed as service of process to the Guarantor itself. Guarantor hereby irrevocably agrees that if its agent ceases to have an address in Israel or ceases to act as its agent it shall appoint a new agent in Israel and will deliver to the Bank within 7 days a copy of a written acceptance of appointment by its agent. If at any time Guarantor appoints a new agent it shall give notice to the Bank of such appointment and until such time service on the agent last known to the other party shall be deemed to be effective service.

18. Severability. Any provision of this Security Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

19. No Waiver; Cumulative Remedies. Neither party shall, by any act, delay, omission, or otherwise, be deemed to have waived any of its rights or remedies hereunder, and no waiver shall be valid unless in writing, signed by the waiving party, and then only to the extent therein set forth. A waiver by either party of any right or remedy hereunder on any one occasion shall not be construed as a bar to any right or remedy which such party would otherwise have had on any future occasion. No failure to exercise, nor any delay in exercising on the part of a party hereunder, any right, power, or privilege hereunder, shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege hereunder preclude any other or future exercise thereof or the exercise of any other right, power, or privilege. The rights and remedies hereunder provided are cumulative and may be exercised singly or concurrently, and are not exclusive of any rights and remedies provided by law. None of the terms or provisions of this Security Agreement may be waived, altered, modified, or amended except by an instrument in writing, duly executed by the Bank and the Guarantor.

20. Successors and Assigns; Governing Law.

(a) This Security Agreement and all obligations of the Guarantor hereunder shall be binding upon the successors and assigns of the Guarantor, and shall, together with the rights and remedies of the Bank hereunder, inure to the benefit of the Bank and its successors and assigns. No sales of participations, other sales, assignments, transfers, or other dispositions of any agreement governing or instrument evidencing the Secured Sums or any portion thereof or interest therein shall in any manner affect the security interest granted to the Bank, hereunder.

(b) This Security Agreement shall be governed by, and be construed and interpreted in accordance with, the laws of the State of Delaware.

(c) All parties to this Security Agreement hereby irrevocably consent to the jurisdiction of the courts in Tel Aviv, Israel, with respect to all matters related to and/or arising of this Agreement. The competent court in Tel Aviv is hereby vested with jurisdiction for the purpose of this Security Agreement, but the Bank may also take legal proceedings in any other competent court and/or jurisdiction. Subject to the provisions set forth in this section, all parties waive any objection to venue and any objection based on a more convenient forum in any action instituted under this Security Agreement.

21. Further Indemnification. The Guarantor agrees to pay, and to save the Bank harmless from, any and all liabilities with respect to, or resulting from any delay in paying, any and all excise, sales, or other similar taxes that may be payable or determined to be payable with respect to any of the Collateral or in connection with any of the transactions contemplated by this Security Agreement, except for losses caused by the Bank's gross negligence, fraud, misrepresentation, bad faith or willful misconduct.

22. Books of Account. Guarantor confirms that the Bank's books and accounts are acceptable to it, shall be deemed correct and shall serve as prima facie evidence against it of all their particulars, including as regards the computation of the Secured Sums, the details of the bills and guarantees and the other collateral and every other matter relating to this Security Agreement.

23. Waiver of Jury Trial. Each of the parties to this Security Agreement waives all right to trial by jury in any action or proceeding to enforce or defend any rights or remedies hereunder. The parties acknowledge that the foregoing waiver is knowing and voluntary.

24. Section Titles. The section titles contained in this Security Agreement are and shall be without substantive meaning or content of any kind whatsoever and are not a part of the agreement between the parties hereto.

25. Counterparts. This Security Agreement may be executed in any number of counterparts, which shall, collectively and separately, constitute one agreement.

26. Transfer of Rights. The Bank may at any time, at its discretion, without needing the Guarantor's consent, transfer to a corporation under its control or to another banking institution or to any venture capital or secondary fund with whom the Bank has transferred warrants or security agreements relating to at least two (2) operating high-technology companies, this Security Agreement and the rights pursuant hereto, including the Collateral, in whole or parts, and any such transferee may transfer the said rights without requiring further consent from Guarantor to a corporation under its control or to another banking institution or to any venture capital or secondary fund. The transfer may be made by endorsement of the Security Agreement or in such other manner as the Bank deems fit.

Notwithstanding the above, in the event that the Bank declares an Event of Default under section 10 above, the Bank may freely transfer this Security Agreement and the rights pursuant hereto, including the Collateral, in whole or parts, to any third party it deems fit, and any such transferee may transfer the said rights without requiring any further consent.

[Signature page Follows]

[Security Agreement dated March 12<sup>th</sup>, 2019 - Signature Page]

IN WITNESS WHEREOF, each of the parties hereto has caused this Security Agreement to be executed and delivered by its duly authorized officer on the date first set forth above.

/s/ Mizrahi Tefahot Bank Ltd.

\_\_\_\_\_  
Mizrahi Tefahot Bank Ltd.

By: \_\_\_\_\_

/s/ Gilad Glick

/s/ Shy Basson

\_\_\_\_\_  
Guarantor

By: \_\_\_\_\_

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Schedule A:  
List of Accounts

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Schedule B:

List of IP.

**None.**

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Schedule C:

Pledged Shares' Certificates + Undated stock powers duly executed in blank or other instruments of transfer satisfactory to the Bank and by such other instruments and documents as the Bank may reasonably request.

**None.**

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Schedule D:

ASSIGNMENT OF FUNDS

In consideration of One Dollar cash in hand, the receipt and sufficiency of which are hereby acknowledged, Itamar Medical, Inc., a Delaware corporation ("Guarantor"), hereby irrevocably assigns to Mizrahi Tefahot Bank ("Bank") all accounts receivable due to it from all customers listed in Schedule A, and does hereby authorize and instruct them to pay to the Bank all amounts now due or which later become due to Guarantor, and authorizes the Bank to endorse any checks received in the name of Guarantor.

\_\_\_\_\_  
Itamar Medical, Inc.

\_\_\_\_\_  
Guarantor

By:  
\_\_\_\_\_

By:  
\_\_\_\_\_

\_\_\_\_\_



Schedule E:

A copy of the resolutions of the Guarantor's board of directors or to be done by unanimous consent of shareholders approving the execution of this agreement and the grant of a security interest under the terms and conditions herein.

[Omitted. The registrant agrees to furnish supplementally a copy of such omitted schedule to the U.S. Securities and Exchange Commission upon request.]

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Schedule F:  
Deposit Account Control Agreement

[Omitted. The registrant agrees to furnish supplementally a copy of such omitted schedule to the U.S. Securities and Exchange Commission upon request.]

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Schedule G:  
UCC Financing Statement  
**To be provided.**

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Schedule H:  
Legal opinion of Guarantor's Counsel  
**To be provided.**

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Schedule I

[Omitted. The registrant agrees to furnish supplementally a copy of such omitted schedule to the U.S. Securities and Exchange Commission upon request.]

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## WARRANT AGREEMENT

This Warrant Agreement (the "**Agreement**"), is made as of the 12<sup>th</sup> day of March, 2019 (the "**Effective Date**") by and between:

- (1) Itamar Medical Ltd. (the "**Company**"), an Israeli public company (Company No. 51-243421-8), whose shares are traded on the Tel-Aviv Stock Exchange ("**TASE**"); and
- (2) Mizrahi Tefahot Bank Ltd. (the "**Bank**"), an Israeli Company formed under the laws of the State of Israel.

In connection with the Credit Facility Agreement between the Company and the Bank dated March 12, 2019 (the "**Credit Agreement**"), the Company agrees to grant the Bank an additional Warrant (the "**Warrant**") to purchase up to 399,044 ordinary shares with a nominal value NIS 0.01 each of the Company ("**Ordinary Shares**").

In consideration of the foregoing and for the purpose of defining the terms and provisions of the Warrant and the respective rights and obligations thereunder, the Company and the Bank hereby agree as follows:

**1. Issue of Warrant**

- 1.1. General. The Company hereby grants to the Bank an assignable (only to Permitted Transferees (as defined below) Warrant to purchase 399,044 Ordinary Shares (the "**Warrant Shares**"). The Warrant may only be assigned to a Permitted Transferee in the event that the Bank makes a corporate decision to sell a portfolio of its holdings in startup companies (comprising of at least two companies), or in the event that the Bank is required by law (including instructions by the Israeli Banking Supervision authorities) to sell and/or transfer this Warrant and/or the Warrant Shares.

"**Permitted Transferee**" shall mean any entity in which the Bank has an equity interest of at least 5% or to any other reputable financial institution, bank or venture capital fund.

- 1.2. Registration. The Warrant shall be registered on the books of the Company when issued. Upon issuance of this Warrant, the Company shall provide the Bank with a confirmation from the Tel Aviv Stock Exchange Ltd. (the "**TASE**"), that the Warrants Shares will be registered for trading upon exercise hereof in accordance with its terms and the applicable TASE rules.
  - 1.3. Limited Rights of Warrant-Holder. Nothing contained in this Agreement or in the Warrant shall, prior to an exercise thereof, be construed as conferring upon the Bank or any Permitted Transferee of the Bank (collectively, the "**Warrant-Holder**") any rights as a shareholder of the Company, including (without limitation) the right to vote, receive dividends, consent or receive notices as a shareholder.
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1.4. NEITHER THE SECURITIES REPRESENTED BY THIS WARRANT NOR THE SECURITIES INTO WHICH THIS WARRANT IS EXERCISABLE HAVE BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES COMMISSION OF ANY STATE IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS AS EVIDENCED BY A LEGAL OPINION OF COUNSEL REASONABLY ACCEPTABLE TO THE COMPANY TO SUCH EFFECT, THE SUBSTANCE OF WHICH SHALL BE REASONABLY ACCEPTABLE TO THE COMPANY.

2. **Exercise; Exercise Price**

2.1. The exercise price per each Warrant Share shall be NIS 1.302 (one Shekel, and 30.2 Agorot) per Warrant Share (the "**Exercise Price**"). The Exercise Price shall be adjusted from time to time pursuant to the terms set forth below.

2.2. Exercise on a Net-Issuance Basis. In lieu of payment to the Company of the Exercise Price per Warrant Share, as set forth in Subsection 2.1 above, a Warrant-Holder may exercise the Warrant (or any portion thereof), into the number of Ordinary Shares calculated pursuant to the following formula, by delivering the Warrant to the Company, accompanied by a written notice of exercise, specifying the number of shares for which the Warrant-Holder desires to exercise the Warrant:

$$X = \frac{Y(A - B)}{A}$$

Where:

X = the number of Warrant Shares to be issued to the Warrant-Holder;

Y = the number of Warrant Shares with respect to which the Warrant Holder desires to exercise the Warrant;

A = the Fair Market Value (as defined below) of one Warrant Share; and

B = the Exercise Price of a Warrant Share, as adjusted.

"**Fair Market Value**" of a Warrant Share shall mean:

(i) the closing price of an Ordinary Share, as reported on the principal stock exchange on which the Company's shares are traded at such time one (1) trading day immediately preceding the delivery of the Purchase Form / exercise notice; or

(ii) If the Fair Market Value for the Warrant Shares cannot be determined in the manner set forth in sub section (i) above, then such Fair Market Value shall be as determined in good faith by the Company and the Warrant-Holder or, if the Company and the Warrant-Holder fail to reach an agreement, by any third party mutually agreed to by the Company and the Warrant-Holder who shall bear the cost of such third party in equal parts.

### 3. Exercise Period

3.1. The Warrant-Holder may exercise part or all of the Warrant at any time, and from time to time, in accordance with the provisions of this Agreement, during the period commencing on the Effective Date and terminating on the fourth anniversary thereof (i.e. at 23:59 Israel time on March 28, 2023) (the "**Exercise Period**"). The Warrant-Holder shall not exercise part or all of the Warrant on the record date of a Company Event, as defined hereunder.

Notwithstanding the foregoing, if the last day of the Exercise Period occurs during a period that was determined by the Company as a blackout period due to the existence or potential for the existence of inside information (as defined under the Israeli Securities Law, 1968) including due to a Company Event (hereinafter: "**Blackout Period**"), then the Exercise Period will be automatically extended, without the need for any further approval of the Company, until the 30th day following the end of the Blackout Period. The Company shall inform the Holder of the extension of the Exercise Period as aforesaid.

"**Company Event**" means - (a) publication of a prospectus or shelf offering report in connection with the raising of capital from the public; (b) signing of a merger agreement; (c) signing of an agreement for the acquisition of the Company's business; (d) distribution of dividend; (e) distribution of bonus shares; (f) publication of a prospectus or shelf offering report in connection with raising capital from existing shareholders of the Company; (g) signing an investment agreement or a loan agreement to the Company.

3.2. Upon the earlier of: (i) the expiry of the Exercise Period; or (ii) the exercise of this Warrant in full; the Warrant shall become null and void and shall no longer remain outstanding or exercisable.

3.3. Automatic Exercise. If at the time of expiry of the Warrant Period for any portion of the Warrant, a portion of the Warrant has not been exercised, such portion of the Warrant will be deemed to have been exercised in accordance with the provisions of Section 2.2 at the date of expiry of the Warrant Period.

### 4. Warrant Shares

4.1. Reservation of Warrant Shares. The Company represents that it has reserved and shall at all times keep reserved, for so long as any Warrant remains outstanding, out of its authorized share capital, such number of Ordinary Shares as may be subject to purchase under the outstanding Warrant.

4.2. Exercise of Warrants; Issue of Warrant Shares.

4.2.1. The Warrant Holder shall exercise the Warrant (or any portion thereof) by delivering to the Company a duly executed Purchase Form, a form of which is attached to this Agreement, provided, however, that in each single exercise of a portion of the Warrant (except for the last portion), the Warrant Holder will exercise such portion in an exercise amount of at least NIS 200,000.



- 4.2.2. Within three (3) business days following surrender of this Warrant and (unless the Warrant Holder elects to exercise the Warrant on a net-issuance basis) payment of the Exercise Price as set forth herein, the Company shall issue and cause to be delivered to the Nominee Company of Mizrahi Tefahot Bank Ltd. (the “**Nominee Company**”) a certificate or certificates (the “**Warrant Share Certificate**”) representing the number of Warrant Shares so purchased upon the exercise of the Warrant in the name of the Nominee Company. The Warrant Share Certificate shall be credited to the bank account/TASE member account of the Warrant-Holder, details of which shall be provided by the Warrant-Holder to the Company within the Purchase Form.
- 4.2.3. Subject to applicable laws, rules and regulations (including stock exchange rules), such Warrant Share Certificate or Certificates shall be deemed to have been issued and any person so designated to be named therein shall be deemed to have become a holder of such Warrant Shares as of the date of surrender of the Warrant being exercised and payment of the Exercise Price, to the extent applicable, notwithstanding that the Warrant Share Certificate or Certificates representing such shares shall not actually have been delivered or that the shareholders register of the Company has yet to be updated.
- 4.2.4. Each Warrant shall be exercisable, at the election of the Warrant-Holder, either in full or from time to time in part and, in the event of a partial exercise of the Warrant at any time prior to the expiry of the Exercise Period, a new certificate evidencing the remaining amount applicable to the Warrant will be issued to the Warrant Holder by the Company.
- 4.2.5. Notwithstanding anything to the contrary, any or all of the Warrants may not be exercised on the record date with respect to the distribution of bonus shares, offer by way of rights issue, distribution of dividends, consolidation of share capital, consolidation of shares, reduction or split in share capital (each hereinafter referred to as a “**Corporate Event**”). In addition, if the ex-date with respect to a Corporate Event occurs before the record date relating to such Corporate Event, then the exercise of Warrants shall not occur on such ex-date.

## **5. Adjustment of Exercise Price and Number of Warrant Shares**

Subject to applicable laws, rules and regulations (including stock exchange rules), the Exercise Price and/or the number and type of securities purchasable upon the exercise of the Warrant, as applicable, shall be subject to adjustment from time to time (at any time during the Exercise Period and prior to the exercise of the Warrant in full) upon the happening of certain events, as follows:

- 5.1. **Bonus Shares**. In the event the Company distributes bonus shares, the Warrant-Holder upon exercising the Warrant shall be issued by the Company (for the exercise price payable upon such exercise, if any), the Ordinary Shares as to which he is exercising the Warrant and, in addition thereto (at no additional cost), such number of shares of the class or classes in which such bonus shares were distributed, on the same terms and conditions as offered to the other shareholders, which he would have received if he had been the holder of the Ordinary Shares as to which he is exercising the Warrant at all times between the date of issuance of the Warrant and the date of its exercise.

In the event that the Warrant Holder will exercise the Warrant on a Net-Issuance Basis (in accordance with Section 2.2 above) immediately following a distributions of bonus shares, then the Exercise Price per Warrant Share will be reduced by the ratio of the bonus shares distribution (*i.e.*, the number of bonus shares distributed divided by the total number of Ordinary Shares immediately following the said distribution of bonus shares), and the number of Warrant Shares to be issued to Warrant Holder on a Net-Issuance Basis shall be calculated based on the following formula:

<b>Y=</b>	<b>R*X</b>	<b>*(MP- (EP/R)/MP</b>
<b><u>Y</u></b>	The number of shares issued upon the exercise of the Warrant following the issuance of bonus shares.	
<b><u>X</u></b>	Number of Ordinary Shares exercised by the Warrant Holder.	
<b><u>R</u></b>	The result of: (i) the total number of Ordinary Shares immediately following the distribution of bonus shares; divided by (ii) the total number of Ordinary Shares immediately prior to the distribution of bonus shares.	
<b><u>MP</u></b>	The price of an Ordinary Share on the stock exchange immediately following the distribution of bonus shares.	
<b><u>EP</u></b>	Exercise Price	

For illustration purposes only, in the event the Company granted the Bank a Warrant to 100 Ordinary Shares at an Exercise Price of NIS55 per Warrant Share, and following that the Company distributed bonus shares at a 1:1 ratio while the price of an Ordinary Share on the TASE prior to the distribution of the bonus shares was NIS 80 and immediately following such distribution of bonus shares was NIS 40, then upon the cashless exercise of such Warrant immediately following the distribution of bonus shares, the number of Warrant Shares issued to the Participant would be 62 Ordinary Shares pursuant to the following calculation:

$$[200 \times (40-27.5)/40] = 62.5$$

The number of Warrant Shares resulting as of the said distribution shall be 62 Ordinary Shares only as no fractional shares will be issued.

- 5.2. **Rights Offering.** In the event of a rights offering conducted by the Company, the number of Warrant Shares issued as a result of the exercise of the Warrant shall be adjusted to the benefit component (מרכיב ההטבה) in the rights offering as reflected in the ratio between the closing price of an Ordinary Share on the stock exchange on the last trading prior to the ex-day and the basis price of an Ordinary Share on the stock exchange ex-rights. Notwithstanding the above, the Exercise Price shall not be reduced in any event to less than the higher of: (i) nominal value of an Ordinary Shares; (ii) minimum exercise price according to the stock exchange by laws (if and to the extent that the stock exchange by laws indeed imposes such a limitation on such an issuance of Warrant Shares).

- 5.3. Dividend. In the event the Company distributes cash dividends, then the Exercise Price for each Ordinary Share underlying such Warrant, not exercised prior to such record date, shall be reduced, as of the record date determining the right to receive such dividend, by the gross dividend amount so distributed per Warrant Share.

However, in any event, the Exercise Price shall not be reduced to less than the higher of: (i) the par value of an Ordinary Share; (ii) minimum exercise price according to the stock exchange by laws (if and to the extent that the stock exchange by laws indeed imposes such a limitation on such an issuance of Warrant Shares).

- 5.4. Adjustment Upon a Consolidation or Merger. In the event that the Company shall consolidate or merge with or into another corporation or convey all or substantially all of its assets to another corporation or other entity, then, in each such case, the Warrant Holder shall, upon any exercise of the Warrant, at any time after the consummation of such consolidation, merger, or conveyance, be entitled to receive, in lieu of the Warrant Shares or other securities and property receivable upon the exercise of the Warrant prior to such consummation, the shares or other securities or property to which the Warrant-Holder would have been entitled upon the consummation of such consolidation, merger or conveyance if the Warrant Holder had exercised the Warrant immediately prior thereto, all subject to further adjustment as provided in this Section; and in each such case, the terms of the Warrant (including exercisability, transfer and adjustment provisions of the Warrant) shall be applicable to the shares or other securities or property receivable upon the exercise of the Warrant after the consummation of such consolidation, merger or conveyance.
- 5.5. Adjustment Upon Reorganization. If the Company shall subdivide or combine its Ordinary Shares, the Exercise Price shall be proportionately reduced in case of subdivision of shares (and the number of Ordinary Shares purchasable upon the exercise of the Warrant shall be proportionately increased), as at the effective date of such subdivision, or if the Company shall fix a record date for the purpose of so subdividing, as at such record date, whichever is earlier, or shall be proportionately increased in the case of combination of shares (and the number of Ordinary Shares purchasable upon the exercise of the Warrant shall be proportionately reduced), as at the effective date of such combination, or, if the Company shall fix a record date for the purpose of so combining, as at such record date, whichever is earlier.
- 5.6. Adjustment Upon spin-off. In the event that the Company shall issue securities of a subsidiary to its shareholders (as a result of a split-off, spin-off or the like) then the Exercise Price for each Ordinary Share underlying the Warrant (not exercised prior to such record date) shall be adjusted by multiplying the Exercise Price in the ratio between: (1) the basis price of an Ordinary Share on the stock exchange ex- split-off, spin-off or the like; and (2) the closing price of an Ordinary Share on the stock exchange on the last trading prior to the ex-day for such a split-off, spin-off or the like.

Notwithstanding the above, the Exercise Price shall not be reduced in any event to less than the higher of: (i) nominal value of an Ordinary Shares; (ii) minimum exercise price according to the stock exchange by laws (if and to the extent that the stock exchange by laws indeed imposes such a limitation on such an issuance of Warrant Shares).

- 5.7. No Impairment. The Company will not, through any reorganization, recapitalization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities, amendment of its memorandum or articles of association or any other organizational document, or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Company, but will at all times in good faith assist in the carrying out of all the provisions of the Warrant and in the taking of all such action as may be reasonably necessary or appropriate in order to protect the rights of the Warrant-Holder against impairment.
- 5.8. Notice of Adjustments. Upon the occurrence of each adjustment or readjustment of the Exercise Price pursuant to the provisions contained herein, the Company, at its expense, shall promptly compute such adjustment or readjustment in accordance with the terms hereof and prepare and furnish to the Warrant-Holder a certificate setting forth each adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based.
- 5.9. Notice of Record Date. In the event of any taking by the Company of a record of the holders of any class of securities for the purpose of determining the holders thereof who are entitled to receive any dividend (including a cash dividend) or other distribution, any right to subscribe for, purchase or otherwise acquire any shares of any class or any other securities or property, or to receive any other right, the Company shall provide to the Warrant-Holder a notice (including through public filings), which shall be sent simultaneously with the notice sent to other shareholders of the Company, specifying the date on which any such record is to be taken for the purpose of such dividend, distribution or right, and the amount and character of such dividend, distribution or right.
- 5.10. No Fractional Shares. No fractional shares shall be issued upon exercise of all or any portion of the Warrant, and the number of Warrant Shares to be issued shall be rounded to the nearest whole share (with cash being paid by the Company for any unissued fractional shares).

## 6. Notice of Events

In the event that the Company files an immediate report regarding: (i) issuance of bonus shares (according to Section 5(i) above); or (ii) issuance of rights (according to Section 5(ii) above); or (iii) distribution of dividend (according to Section 5(iii) above); or (iv) a merger transaction (according to Section 5(iv) above); or (v) a reorganization (according to Section 5(v) above); or (vi) a spin off (according to Section 5(vi) above); or (vii) issuance of any securities of the Company other than: (i) issuance of securities under any of the Company's Employee Stock Options Plan; (ii) securities issued following an exercise of any of the securities mentioned in sub section (i); or (viii) the sale of all or substantially all of the Company assets to another person; or (ix) a voluntary or involuntary dissolution, liquidation or winding-up of the Company ("**Special Event**") the Company shall, on the same day it files such an immediate report, provide a copy of such immediate report to the Warrant-Holder (the "**Company Notice**").

## 7. Representations, Warranties and Covenants of the Company

The Company hereby represents and warrants to the Bank that as of the Effective Date:

- 7.1. This Warrant has been duly authorized and executed by the Company and is a valid and binding obligation of the Company enforceable in accordance with its terms. The grant of this Warrant and the issuance of the Warrant Shares in accordance herewith shall not entitle any third party, including any shareholders of the Company, to any pre-emptive rights, anti-dilution rights, or other benefits.
- 7.2. The Warrant Shares when issued in accordance with the terms hereof shall be duly authorized, will be validly issued, fully paid and non-assessable, not subject to any preemptive rights, and issued free and clear of all debts, liens, encumbrances, taxes, charges, equities, claims, any rights of third parties and any other liabilities.
- 7.3. The execution and delivery of this Warrant are not, and the issuance of the Warrant Shares upon exercise of this Warrant in accordance with the terms hereof will not, conflict with the Articles of Association of the Company, and do not contravene any law, governmental rule or regulation, judgment or order applicable to the Company, and do not and will not conflict with or contravene any provision of, or constitute a default under, any indenture, mortgage, contract or other instrument of which the Company is a party or by which it is bound or require any waiver or the consent or approval of, the giving of notice to, the registration with or the taking of any action in respect of or by, any government authority or agency or other person known to the Company other than the need to file an immediate report regarding the issuance of the Warrant Shares (if and when they are issued).
- 7.4. Without derogating from the generality of the aforesaid, the Company has fulfilled all requirements of the Articles of Association and any other agreement and/or document by which the Company is bound in respect of any limitations on: (i) the issuance of this Warrant; or (ii) the right of the Warrant-Holder to exercise the Warrant and purchase Warrant Shares.
- 7.5. The Company's: (i) authorized share capital; and (ii) issued and outstanding share capital; and (iii) securities convertible into Company's shares; are as set in the Company's public report a copy of which is attached in Exhibit 7.6 hereto. Except as set forth in Exhibit 7.6, there are no outstanding options, warrants and/or convertible instruments.
- 7.6. The Financial Statements (as defined below), as were provided to the Bank prior to the date hereof, (a) were prepared in accordance with International Financial Reporting Standards ("IFRS"); (b) fairly present the Company's financial condition and the results of its operations as of the relevant dates thereof and for the periods covered thereby.  
  
**"Financial Statement"** – the Company's audited consolidated financial statements for the period of 12 month that ended on December 31, 2016 that were published on the Israeli Securities Authority web site on March 29, 2017 prepared in accordance with.
- 7.7. There has been no claim or proceeding against the Company seeking bankruptcy, reorganization or other relief with respect to it or its debts under any foreign or domestic, federal, state or local bankruptcy, insolvency or other similar law, or any petition filed against any part of the property of the Company.

- 7.8. The Articles of Association of the Company, as in force at the date hereof, is attached hereto as Exhibit 7.9.
- 7.9. Subject to the Bank representation in Section 8.3 below, the offer and issuance of the Warrant and the Warrant Shares by the Company is not subject to obtaining an exemption from the Israeli Securities Authority from the requirement to publish a prospectus in Israel. The Warrant Shares will be listed for trading on the TASE promptly following the exercise of this Warrant.
- 7.10. Immediately following the exercise of this Warrant, Company shall (i) file an immediate report with the Israeli Securities Authority regarding such exercise, and (ii) deposit the Warrant Shares (immediately upon an exercise) with the Nominee Company together with instructions to transfer the Warrant Shares to the TASE Clearing House and deposit the Warrant Shares in MTB's bank account.

**8. Representations and Warranties of the Bank.**

The Bank hereby represents and warrants to the Company as follows:

- 8.1. The Bank has been given access to information regarding the Company and its Subsidiaries, and has had the opportunity to ask such questions as it has deemed necessary and to receive answers from representatives of the Company regarding the terms of the Warrant and the business of the Company and its Subsidiaries.
- 8.2. The Bank is an investor as defined in Section 15A(b)(1) of the Israeli Securities Law, 1967 and is aware of the implications of being qualified as such an investor, and is acquiring the Warrant for its own account and not with a view to distributing or reselling.
- 8.3. The Bank is experienced in investing in companies that are similar in nature to the Company, and is capable of evaluating the merits and risks involved in an investment of the type of the investment in the Company contemplated hereunder and in the purchase of the Warrants. The Bank is able to bear the economic risk of an investment in the Warrants.

**9. Miscellaneous**

- 9.1. Notices. Any notice pursuant to this Agreement by the Company or by a Warrant-Holder shall be in writing and shall be deemed to have been duly given (i) if given by facsimile transmission or electronic mail on the business day on which such transmission is sent and confirmed, (ii) if given by air courier, two business days following the date it was sent, or (iii) if mailed by registered mail, return receipt requested, five business days following the date it was mailed, to the following addresses:

If to the Warrant Holder:

Mizrahi Tefahot Bank Ltd.

Jabotinsky Street.

Ramat Gan, Israel

E-mail: dani\_maor@umtb.co.il

Attn: Dani Maor

with a copy to:

Shlomo Farkas, Adv.,

Gross, Kleinhendler, Hodak, Halevy, Greenberg & Shenhav Co., Law Offices

One Azrieli Center, Circular Tower

Tel Aviv 6701101, Israel

Email: [shlomo@gkh-law.com](mailto:shlomo@gkh-law.com)

If to the Company:

Itamar Medical Ltd.

9 Halamish Street, Caesarea, Israel

Attn: Chief Financial Officer

Tel: 046177000

Fax: 046275598

Email: [sshaul@Itamar-Medical.com](mailto:sshaul@Itamar-Medical.com)

Each party may from time to time change the addresses or fax number to which notices to it are to be delivered or mailed hereunder by notice in accordance herewith to the other party.

- 9.2. Successors. All the covenants and provisions of this Agreement by or for the benefit of the Company or the Warrant-Holder shall, subject to applicable law, bind and inure to the benefit of their respective successors and assigns.
- 9.3. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Israel. The parties hereto irrevocably submit to the exclusive jurisdiction of the courts of Tel Aviv, Israel in any action connected with this Agreement.
- 9.4. Benefits of this Agreement. Nothing in this Agreement shall be construed to give to any person or corporation other than the Company and the Warrant-Holder any legal or equitable right, remedy or claim under this Agreement. This Agreement shall be for the sole and exclusive benefit of the Company and the Warrant-Holder.
- 9.5. Form of Warrant. The text of the Warrant Certificate evidencing the Warrant (the "**Warrant Certificate**") and of the form of election to purchase Warrant Shares shall be as set forth in **Exhibit 1** attached hereto. The Exercise Price and, accordingly, number of Warrant Shares issuable upon exercise of the Warrant are subject to adjustment upon the occurrence of certain events, all as herein provided.

9.6. Warrant Certificate.

9.6.1. **Exchange of Certificate.** Any Warrant Certificate may be exchanged for Warrant Certificates entitling a Warrant-Holder, in the aggregate, to purchase the same number of Warrant Shares as the Warrant Certificate or Certificates surrendered then entitled such Warrant-Holder to purchase. Any Warrant-Holder desiring to exchange a Warrant Certificate shall make such request in writing delivered to the Company, and shall surrender the certificate evidencing the Warrant to be so exchanged. Thereupon, the Company shall execute and deliver to the person entitled thereto a new Warrant Certificate as so requested.

9.6.2. **Mutilated or Missing Warrant.** In case any Warrant Certificate or Certificates shall be mutilated, lost, stolen or destroyed, the Company shall, at the request of the affected Warrant-Holder, issue and deliver in exchange and substitution for and upon cancellation of the mutilated certificate or certificates, or in lieu of and substitution for the certificate or certificates lost, stolen or destroyed, a new Warrant Certificate or Certificate representing an equivalent right or interest, but only upon receipt of evidence reasonably satisfactory to the Company of such loss, theft or destruction of such Warrant Certificate.

9.7. Severability. If any term or other provision of this Agreement is invalid, illegal, or incapable of being enforced by any law or public policy, all other terms or provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party. Upon such determination that any term or other provision is invalid, illegal, or incapable of being enforced, the parties hereto shall act in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner in order that the transactions contemplated hereby are consummated as originally contemplated to the greatest extent possible.

[Signature Page Follows]



IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

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[Bank]

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Itamar Medical Ltd.

By: /s/Gilad Glick

Name: Gilad Glick

Title: President and CEO

By: /s/Shy Basson

Name: Shy Basson

Title: CFO

**EXHIBIT 1**

Warrant Certificate No. \_\_\_\_\_

**WARRANT TO PURCHASE ORDINARY SHARES**

VOID AFTER 23:59 ISRAEL TIME ON THE LAST DAY OF THE EXERCISE PERIOD (AS DEFINED IN THE WARRANT AGREEMENT).

ITAMAR MEDICAL LTD. (“**ITAMAR**”)

INCORPORATED UNDER THE LAWS OF THE STATE OF ISRAEL

This certifies that, for value received, Mizrahi Tefahot Bank Ltd. the registered holder hereof or its Permitted Transferee (the “**Warrant-Holder**”), is entitled to purchase from Itamar, at any time during the Exercise Period (as defined in the Warrant Agreement entered into by and between the Warrant-Holder and Itamar on March 12, 2019 (the “**Warrant Agreement**”; capitalized terms used and not otherwise defined herein shall have the meanings ascribed to them in the Warrant Agreement)) commencing at 9.00 a.m., Israel Time, on the first day of the Exercise Period and ending at 11.59 p.m., Israel Time, on the last day of the Exercise Period, 399,044 ordinary shares with a nominal value NIS 0.01 each of the Company (the “**Warrant Shares**”) at a purchase price per share equal to the Exercise Price, as such may be from time to time. The number and type of Warrant Shares evidenced hereby and the Exercise Price shall be subject to adjustment from time to time as set forth in the Warrant Agreement. The terms of this Warrant are subject to the terms and provisions contained in the Warrant Agreement. The Warrant evidenced hereby may be exercised in whole or in part in accordance with the provisions of the Warrant Agreement.

Upon any partial exercise of the Warrant evidenced hereby, there shall be signed and issued, to the Warrant-Holder effecting such partial exercise, a new Warrant Certificate in respect of the balance of the Warrant Shares as to which the Warrant evidenced hereby shall not have been exercised. This Warrant may be exchanged by delivery to the office of Itamar of this Warrant Certificate properly endorsed for one or more new Warrants of the same aggregate number of Ordinary Shares as hereby evidenced by the Warrant or Warrants exchanged. No fractional shares will be issued upon the exercise of rights to purchase hereunder, but Itamar shall pay the cash value of any fraction upon the exercise of any part of this Warrant. This Warrant is assignable only to Permitted Transferees.

Itamar Medical Ltd.

By: /s/ Gilad Glick

Name: Gilad Glick

Title: President and CEO

By: /s/ Shy Basson

Name: Shy Basson

Title: CFO

**ITAMAR MEDICAL LTD.  
PURCHASE FORM**

**[Insert Details]**

The undersigned hereby irrevocably elects to exercise the right of purchase represented by the Warrant Certificate with respect to \_\_\_\_ Ordinary Shares of Itamar Medical Ltd. (“**Ordinary Shares**”), at the Exercise Price per Ordinary Share set forth in the Warrant Agreement [on a net-exercise basis], and requests that certificates for the Ordinary Shares be issued and registered in Itamar’s shareholders register, in the name of:

(name and address must be printed or typewritten)

\_\_\_\_\_

Name and I.D. number

\_\_\_\_\_

Address

\_\_\_\_\_

and, if the number of Ordinary Shares shall be less than the total number of Ordinary Shares that the Warrant-Holder is entitled to purchase pursuant to this Warrant, a new Warrant Certificate shall be registered for the balance of the Ordinary Shares in the name of the undersigned Warrant-Holder as below indicated and delivered to the address stated below.

Dated: \_\_\_\_\_

Name of Warrant-Holder: \_\_\_\_\_

Address: \_\_\_\_\_

\_\_\_\_\_

Signature: \_\_\_\_\_

Note: The above signature must correspond with the name as written upon the face of this Warrant Certificate in every particular, without alteration or enlargement or any change whatever, unless this Warrant has been assigned.

Signature Witnessed: \_\_\_\_\_

**ASSIGNMENT**

(To be signed only upon assignment of Warrants to Permitted Transferees)

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers this Warrant unto

(name and I.D. number and address of assignee must be printed or typewritten)

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

which is a Permitted Transferee of the Bank under the terms of the Warrant, hereby irrevocably constituting and appointing \_\_\_\_\_ as Attorney-in-Fact to transfer said Warrant on the books of Itamar Medical Ltd., with full power of substitution in the premises.

Dated: \_\_\_\_\_

\_\_\_\_\_  
Signature of Registered Holder

Note: The signature of this assignment must correspond with the name as it appears upon the face of the Warrant Certificate in every particular, without alteration or enlargement or any charge whatever.

Signature Witnessed: \_\_\_\_\_

CERTIFICATION  
pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended

I, Gilad Glick, certify that:

1. I have reviewed this annual report on Form 20-F of Itamar Medical Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) [paragraph omitted in accordance with Exchange Act Rule 13a-14(a)];
  - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 10, 2019

/s/ Gilad Glick  
Gilad Glick  
Chief Executive Officer

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CERTIFICATION  
pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended

I, Shy Basson, certify that:

1. I have reviewed this annual report on Form 20-F of Itamar Medical Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) [paragraph omitted in accordance with Exchange Act Rule 13a-14(a)];
  - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 10, 2019

/s/ Shy Basson  
Shy Basson  
Chief Financial Officer

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CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350

In connection with the Annual Report of Itamar Medical Ltd. (the "Company") on Form 20-F for the period ended December 31, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Gilad Glick, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, that, to my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Gilad Glick  
Gilad Glick  
Chief Executive Officer

Date: April 10, 2019

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CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350

In connection with the Annual Report of Itamar Medical Ltd. (the "Company") on Form 20-F for the period ended December 31, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Shy Basson, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, that, to my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Shy Basson  
Shy Basson  
Chief Financial Officer

Date: April 10, 2019

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