

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

FORM 20-F

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(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, 2019

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 001-36903



**KORNIT DIGITAL LTD.**

(Exact name of Registrant as specified in its charter)

**Israel**

(Jurisdiction of incorporation or organization)

**12 Ha'Amal St.**

**Rosh-Ha'Ayin 4809246, Israel**

(Address of principal executive offices)

**Guy Avidan**

**Chief Financial Officer**

**Kornit Digital Ltd.**

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(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:

<b>Title of each class</b>	<b>Trading Symbol(s)</b>	<b>Name of each exchange on which registered</b>
<b>Ordinary shares, par value NIS 0.01 per share</b>	<b>KRNT</b>	<b>The Nasdaq Stock Market LLC</b>

Securities registered or to be registered pursuant to Section 12(g) of the Act: **None**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

As of December 31, 2019, the registrant had outstanding 40,684,340 ordinary shares, par value NIS 0.01 per share

Indicate by check mark if the registrant is a well known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes  No

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

Large accelerated filer:

Accelerated filer:

Non-accelerated filer:

Emerging growth company:

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

† 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 statement item the registrant has elected to follow.  Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

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## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain information included or incorporated by reference in this annual report on Form 20-F may be deemed to be “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are often characterized by the use of forward-looking terminology such as “may,” “will,” “expect,” “anticipate,” “estimate,” “continue,” “believe,” “should,” “intend,” “project” or other similar words, but are not the only way these statements are identified.

These forward-looking statements may include, but are not limited to, statements relating to our objectives, plans and strategies, statements that contain projections of results of operations or of financial condition and all statements (other than statements of historical facts) that address activities, events or developments that we expect, project, believe, anticipate, intend or project will or may occur in the future. The statements that we make regarding the following matters are forward-looking by their nature:

- our expectations regarding the expansion of our servable addressable market;
- our expectations regarding our future gross margins and operating expenses;
- our expectations regarding our growth and overall profitability;
- our expectations regarding the impacts of variability on our future revenues;
- our expectations regarding drivers of our future growth, including anticipated sales growth, penetration of new markets, and expansion of our customer base;
- our plans to continue our expansion into new product markets;
- our plans to continue to invest in research and development to introduce new systems and improved solutions;
- our plans regarding our distribution strategy for our products;
- our expectations concerning the timing for completion of the development of our new, modern manufacturing facility in Kiryat Gat, Israel;
- our expectations regarding the success of our new products and systems;
- the expected impact of new accounting pronouncements on our results of operations;
- the impact of government laws and regulations;
- our expectations regarding our anticipated cash requirements for the next 12 months;
- our plans to expand our international operations;
- our plans to file and procure additional patents relating to our intellectual property rights and the adequate protection of these rights; and
- our plans to pursue strategic acquisitions or invest in complementary companies, products or technologies.

The preceding list is not intended to be an exhaustive list of all of our forward-looking statements. The forward-looking statements are based on our beliefs, assumptions and expectations of future performance, taking into account the information currently available to us. These statements are only predictions based upon our current expectations and projections about future events. There are important factors that could cause our actual results, levels of activity, performance or achievements to differ materially from the results, levels of activity, performance or achievements expressed or implied by the forward-looking statements. In particular, you should consider the risks described in “ITEM 3.D. Risk Factors” and the additional information contained in “ITEM 4 Information on the Company” and “ITEM 5. Operating and Financial Review and Prospects.”

You should not rely upon forward-looking statements as predictions of future events. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee that the future results, levels of activity, performance and events and circumstances reflected in the forward-looking statements will be achieved or will occur.

## USE OF TRADE NAMES

Throughout this annual report, we refer to various trademarks, service marks and trade names that we use in our business. “Kornit Digital”, the “K” logo and other trademarks or service marks of Kornit Digital Ltd. appearing in this annual report are the property of Kornit Digital Ltd. We have several other registered trademarks, service marks and pending applications relating to our solutions. Although we have omitted the “®” and “™” trademark designations for such marks in this annual report, all rights to such trademarks are nevertheless reserved. Other trademarks and service marks appearing in this annual report are the property of their respective holders. We do not intend our use or display of other companies’ tradenames, trademarks or service marks to imply a relationship with, or endorsement or sponsorship of us by, these other companies.

## CERTAIN ADDITIONAL TERMS AND CONVENTIONS

In this annual report, unless the context otherwise requires:

- references to “Kornit Digital,” “our company,” “the Company,” “the registrant,” “we,” “us,” and “our” refer to Kornit Digital Ltd.;
- references to “ordinary shares,” “our shares” and similar expressions refer to the Company’s Ordinary Shares, par value NIS 0.01 per share;
- references to “dollars”, “U.S. dollars”, “U.S. \$” and “\$” are to United States Dollars;
- references to “shekels” and “NIS” are to New Israeli Shekels, the Israeli currency;
- references to “GAAP” are to U.S. Generally Accepted Accounting Principles;
- references to our “articles” are to our Articles of Association, as amended;
- references to the “Companies Law” are to the Israeli Companies Law, 5759-1999, as amended;
- references to the “Securities Act” are to the U.S. Securities Act of 1933, as amended;
- references to the “Exchange Act” are to the U.S. Securities Exchange Act of 1934, as amended;
- references to “NASDAQ” are to the NASDAQ Stock Market; and
- references to the “SEC” are to the United States Securities and Exchange Commission.

**PART I**

**ITEM 1. Identity of Directors, Senior Management and Advisers.**

Not Applicable.

**ITEM 2. Offer Statistics and Expected Timetable.**

Not Applicable.

**ITEM 3. Key Information.**

**A. Selected Financial Data**

The following tables set forth our selected consolidated financial data. You should read the following selected consolidated financial data in conjunction with, 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 the related notes appearing elsewhere in this annual report.

The selected consolidated statements of income data for the years ended December 31, 2017, 2018 and 2019 and selected consolidated balance sheet data as of December 31, 2018 and 2019 are derived from our audited consolidated financial statements appearing in ITEM 18. Financial Statements. The selected consolidated statements of income data for the years ended December 31, 2015 and 2016 and the selected consolidated balance sheet data as of December 31, 2015, 2016 and 2017 has been derived from our audited consolidated financial statements not appearing in this annual report. The historical results set forth below are not necessarily indicative of the results to be expected in future periods. Our financial statements have been prepared in accordance with GAAP.

	<b>Year Ended December 31,</b>				
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
	<b>(in thousands, except share and per share data)</b>				
<b>Consolidated Statements of Income:</b>					
Revenues	\$ 86,405	\$ 108,694	\$ 114,088	\$ 142,373	\$ 179,866
Cost of revenues <sup>(1)</sup>	45,820	59,284	59,977	72,504	97,790
Gross profit	<u>40,585</u>	<u>49,410</u>	<u>54,111</u>	<u>69,869</u>	<u>82,076</u>
Operating expenses:					
Research and development <sup>(1)</sup>	11,950	17,383	20,834	21,912	22,407
Sales and marketing <sup>(1)</sup>	13,367	18,338	21,279	25,596	33,573
General and administrative <sup>(1)</sup>	9,500	12,259	13,578	16,436	18,498
Restructuring expenses	-	-	503	321	-
Total operating expenses	<u>34,817</u>	<u>47,980</u>	<u>56,194</u>	<u>64,265</u>	<u>74,478</u>
Operating income (loss)	<u>5,768</u>	<u>1,430</u>	<u>(2,083)</u>	<u>5,604</u>	<u>7,598</u>
Finance income (expenses), net	<u>(334)</u>	<u>46</u>	<u>452</u>	<u>1,433</u>	<u>3,313</u>
Income (loss) before taxes on income (tax benefit)	5,434	1,476	(1,631)	7,037	10,911
Taxes on income (tax benefit)	709	648	384	(5,392)	744
Net income (loss)	<u>4,725</u>	<u>\$ 828</u>	<u>\$ (2,015)</u>	<u>\$ 12,429</u>	<u>\$ 10,167</u>
Net earnings (loss) per ordinary share <sup>(2)</sup>					
Basic	<u>\$ 0.19</u>	<u>\$ 0.03</u>	<u>\$ (0.06)</u>	<u>\$ 0.36</u>	<u>\$ 0.27</u>
Diluted	<u>\$ 0.18</u>	<u>\$ 0.03</u>	<u>\$ (0.06)</u>	<u>\$ 0.35</u>	<u>\$ 0.26</u>
Weighted average number of ordinary shares used in computing income per ordinary share <sup>(2)</sup>					
Basic	<u>24,633,369</u>	<u>30,562,255</u>	<u>33,574,147</u>	<u>34,521,352</u>	<u>38,079,394</u>
Diluted	<u>26,458,584</u>	<u>31,732,532</u>	<u>33,574,147</u>	<u>35,363,704</u>	<u>39,294,115</u>

	As of December 31,				
	2015	2016	2017	2018	2019
	(in thousands)				
<b>Consolidated balance sheet data:</b>					
Cash and cash equivalents	\$ 18,464	\$ 22,789	\$ 18,629	\$ 74,132	\$ 40,473
Working capital <sup>(3)</sup>	65,455	68,651	63,907	107,584	205,825
Total assets	123,352	140,046	178,374	214,823	405,466
Total long term liabilities	1,839	2,725	2,155	2,515	21,586
Total shareholders' equity	100,262	107,188	150,699	179,136	338,303

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

	Year Ended December 31,				
	2015	2016	2017	2018	2019
	(in thousands)				
<b>Share-based compensation expense:</b>					
Cost of revenues	\$ 306	\$ 482	\$ 629	\$ 892	\$ 1,152
Research and development	281	217	775	1,022	1,294
Sales and marketing	537	654	920	1,240	1,689
General and administrative	1,259	1,640	2,087	2,392	2,479
Total share-based compensation expense	<u>\$ 2,383</u>	<u>\$ 2,993</u>	<u>\$ 4,411</u>	<u>\$ 5,546</u>	<u>\$ 6,614</u>

(2) Basic and diluted net earnings per ordinary share is computed based on the basic and diluted weighted average number of ordinary shares outstanding during each period. For additional information, see Notes 2aa and 11 to our consolidated financial statements included in ITEM 18. Financial Statements.

(3) Working capital is defined as total current assets minus total current liabilities. In November 2015, the Financial Accounting Standards Board, or the FASB, issued Accounting Standards Update No. 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes (ASU 2015-17), which simplifies the presentation of deferred income taxes by requiring deferred tax assets and liabilities to be classified as noncurrent on the balance sheet. We adopted this standard early in 2015 retrospectively and reclassified all of our current deferred tax assets to noncurrent deferred tax assets.

#### **B. Capitalization and Indebtedness**

Not applicable.

#### **C. Reasons for the Offer and Use of Proceeds**

Not applicable.

#### **D. Risk Factors**

*Our business involves a high degree of risk. Please carefully consider the risks we describe below in addition to the other information set forth in this annual report and in our other filings with the SEC. These risks could materially and adversely affect our business, financial condition and results of operations. See "Cautionary Note Regarding Forward-Looking Statements."*

## **Risks Related to Our Business and Our Industry**

***If the market for digital textile printing does not develop as we anticipate, our sales may not grow as quickly as expected and our share price could decline.***

The global printed textile industry is currently dominated by analog printing processes, the most common of which are screen printing and carousel printing. If the global printed textile industry does not more broadly accept digital printing as an alternative to analog printing, our revenues may not grow as quickly as expected, or may decline, and our share price could suffer. Widespread adoption of digital textile printing depends on the willingness and ability of businesses in the printed textile industry to replace their existing analog printing systems with digital printing systems. These businesses may decide that digital printing processes are less reliable, less cost-effective, of lower quality, or otherwise less suitable for their commercial needs than analog printing processes. For example, screen printing currently tends to be faster and less expensive than digital printing on a cost per print basis for larger production runs. Even if businesses are persuaded as to the benefits of digital printing, we do not know whether potential buyers of digital printing systems will delay their investment decisions. As a result, we may not correctly estimate demand for our solutions, which could cause us to fail to meet customer needs in a timely manner or fail to take advantage of economies of scale in the production of our solutions.

***Our results of operations will be adversely impacted by our failure to timely introduce new products, or to achieve market acceptance or gain adequate market share for new or existing products.***

Our ability to develop innovative new systems and products is important to our business strategy and competitive position. Difficulties or delays in research, development, production or commercialization of new systems and products could adversely impact our sales and competitive position. We cannot ensure that the significant investments that we have made in distribution, sales and customer service teams to launch the new systems will enable us to successfully market, sell and distribute the systems as planned. Market acceptance of the new systems will depend on, among other things, the systems demonstrating a real advantage over existing printers, the success of our sales and marketing teams in creating awareness of the systems, the sales price and the return on investment of the systems relative to alternative printers, customer recognition of the value of our technology, the effectiveness of our marketing campaigns, and the general willingness of potential customers to try new technologies. If we fail to develop and launch new systems and products, experience cost overruns in connection with such development, or the market does not accept our new systems and products, our business, results of operations and financial condition would be adversely affected. Even if we are successful in selling our new systems which provide greater efficiency and lower cost per print, sales of ink and other consumables per system may decrease, which may adversely affect our results of operations, including gross margin and overall profitability.

***If our customers use alternative ink and consumables and/or alternative spare parts in our systems, our gross margin could decline significantly, and our business could be harmed.***

Our business model benefits significantly from recurring sales of our ink and other consumables and spare parts for our existing and growing installed base of systems. Third parties could try to sell, and purchasers of our systems can seek to buy, alternative versions of our ink and other consumables or alternative spare parts. We have encountered limited instances of these activities by third parties in specific regions. Third-party ink and other consumables and spare parts might be less expensive or otherwise more appealing to our customers than our ink and other consumables. Significant sales of third-party inks and other consumables and spare parts to our customers could adversely impact our revenues and would have a more significant effect on our gross margins and overall profitability.

Given the sensitivity of our systems and, in particular, print heads to lower quality ink, which may cause our print heads to clog or otherwise malfunction, our systems are setup to operate at the highest throughput level only when using our original ink and other consumables in order to protect them from damage. In addition, since we are unable to control the impact of third-party inks, their use and the use of third-party spare parts might void the warranty that comes with our systems. We have also sought to protect the proprietary technology underlying our ink through patents and other forms of intellectual property protections and include an RFID mechanism with our ink tanks. These steps that we have taken to ensure the smooth operation of our systems and our ability to fully invoke all our intellectual property rights may be challenged. Any reduction in our ability to market and sell our ink and other consumables and spare parts for use in our systems may adversely impact our future revenues and our overall profitability.



***We face increased competition and if we do not compete successfully, our revenues and demand for our solutions could decline.***

The principal competition for our digital printing systems comes from manufacturers of analog screen printing systems, textile printers and ink, such as M&R Printing Equipment, Inc., Machines Highest Mechatronic GmbH and S. Roque – Máquinas e Tecnologia Laser, S.A. Our principal competitor in the industrial digital direct-to-garment market is Aeoon Technologies GmbH. We also face competition in this market from Brother International Corporation, Seiko Epson Corporation, Ricoh Company Ltd. and a number of smaller competitors with respect to our entry level system. Recently, a new competitor, with little track record, entered into the market The Dream Junction/OvalJet. Our competitors in the Direct-to-Fabric (also known as R2R), or DTF, market include: Dover Corporation through its MS Printing Solutions S.r.l. subsidiary; Seiko Epson Corporation through its subsidiary, Fratelli Robustelli S.r.l.; Durst Phototechnik AG; Electronics for Imaging, Inc. through its Reggiani Macchine SpA subsidiary; and a number of smaller competitors. Some of our current and potential competitors have larger overall installed bases, longer operating histories and greater name recognition than we have. In addition, many of these competitors have greater sales and marketing resources, more advanced manufacturing operations, broader distribution channels and greater customer support resources than we have. Some of our competitors in the DTF market gained their current market position by merging with, or acquiring, existing companies in the DTF market. Current and future competitors may be able to respond more quickly to changes in customer demands and devote greater resources to the development, promotion and sale of their printers and ink and other consumables than we can. Our current and potential competitors in both the direct-to-garment and direct-to-fabric markets may also develop and market new technologies that render our existing solutions unmarketable or less competitive. In addition, if these competitors develop products with similar or superior functionality to our solutions at prices comparable to or lower than ours, we may be forced to decrease the prices of our solutions in order to remain competitive, which could reduce our gross margins.

***Our move towards a higher proportion of direct sales in place of indirect sales may have adverse consequences.***

Our go-to-market strategy consists of a hybrid model of indirect and direct sales, depending on the specific territory into which we are selling. We continually evaluate that strategy in the geographies we serve in an effort to best serve our direct or indirect customers. As we shift towards a direct sales model, we may experience an initial disruption to our sales efforts in those jurisdictions as we transition from our previous sales structure. In addition, a shift to a direct sales model might result in a short-term impact on our results of operations, including due to the acquisition of inventory that requires a step up in basis and other such accounting impacts and costs associated with increased headcount and related expenses. Moreover, the implementation of a direct sales model might require significant management time and attention which might have an adverse impact on our business and results of operations during the transition period. We have been exposed to risks as a result of transitioning from an indirect sales model to a direct sales model, such as difficulties maintaining relationships with specific customers, hiring appropriately trained personnel and ensuring compliance with local product registration requirements.

***A significant portion of our sales is concentrated among a small number of customers, and our business would be adversely affected by a decline in sales to, or the loss of, those customers.***

During the years ended December 31, 2018 and 2019, our ten largest customers accounted for approximately 55% and 45% of our revenues, respectively. During those same years, Amazon Corporate LLC, a subsidiary of Amazon.com, Inc., which we collectively refer to as Amazon, accounted for approximately 17% and 12% of our revenues, respectively. Given the concentration of our revenues with these customers, the loss of either Amazon or another one of our significant customers, or variability in their order flows, could materially adversely affect our revenues or results of operations.

***Our operating results are subject to seasonal variations, which could cause the price of our ordinary shares to decline.***

Our business is seasonal. Either the third or fourth quarter has historically been our strongest quarter in terms of revenues, and the first quarter has been our weakest. This seasonality coincides with spending in anticipation of the holidays towards the end of the year, especially in the United States and Europe. In the last three fiscal years, we have continuously increased our operating expenses throughout the year, and as such, the expense run rate at which we have ended each year is significantly higher than where we started the given year. The carryover of such costs into the first quarter of the following year results in downward pressure on operating margins, which is compounded by seasonally lower revenue in the first quarter compared to other quarters.

In addition, during the third and fourth quarters, when customer spending is at its highest levels, we enjoy a more favorable revenue mix, generating greater revenues from the sales of ink and other consumables than in the first quarter. Since sales of ink and other consumables generate higher gross margins than systems sales, gross margin in the third or fourth quarter tends to be higher than gross margin in the first quarter, when our customers typically reduce their system utilization rates significantly, and thereby purchase less ink and other consumables. This impact leads to a reduction in overall operating margins. As we continue to focus our sales efforts on larger accounts, and as we continue to invest in the growth of our business, the impact of this seasonal decline in revenues generated from sales of ink and other consumables has had and may continue to have a more pronounced impact on gross margins and operating margins.

***Our quarterly results of operations have fluctuated in the past and may fluctuate in the future due to variability in our revenues.***

Our revenues and other results of operations have fluctuated from quarter to quarter in the past and could continue to fluctuate in the future. Our revenues depend in part on the sale and delivery of our systems, and we cannot predict with certainty when sales transactions for our systems will close or when we will be able to recognize the revenues from such sales, which generally occurs upon delivery of our systems. Customers that we expect to purchase our systems may delay doing so due to timing of obtaining regulatory permits or a change in their priorities or business plans, including as a result of adverse general economic conditions that may disproportionately impact the ability of the small businesses that constitute a significant portion of our customer base to expend capital or access financing sources. Such conditions could also force us to reduce our prices or limit our ability to profit from economies of scale, which could harm our gross margins. As a result of these factors, we may fail to meet market expectations for any given quarter if sales that we expect for that quarter are delayed until subsequent quarters. Our Allegro and Vulcan systems are offered at a higher average selling price than our other systems and, as a result, have longer sales cycles. The closing of one or more large transactions in a particular quarter may make it more difficult for us to meet market expectations in subsequent quarters, and our failure to close one or more large transactions in a particular quarter could adversely impact our revenues for that quarter. In addition, we may experience slower growth in our gross margins as our new systems gain commercial acceptance. Our gross margins may also fluctuate based on the regions in which sales of these systems occur.

Our customers generally purchase our ink and other consumables on an as-needed basis, and delays in making such purchases by a number of customers could result in a meaningful shift of revenues from one quarter to the next. Moreover, because ink and other consumables have a shelf life of up to 12 months, we typically maintain inventories of ink and other consumables sufficient to cover our average sales for one quarter. These inventories may not match customers' demands for any given quarter, which could cause shortages or excesses in our inventory of ink and other consumables and result in fluctuations of our quarterly revenues. To the extent that we have excess inventory of ink and consumables that we are unable to sell due to spoilage or otherwise, we may have to write off such inventory. These inventory requirements may also limit our ability to profit from economies of scale in the production and marketing of our ink and other consumables.

Furthermore, we base our current and future expense levels on our revenue forecasts and operating plans, and our costs are relatively fixed in the short term, due in part to long lead times required for ordering certain components of our systems and ordering assembly of our systems by third-party manufacturers. Accordingly, we would likely not be able to reduce our costs sufficiently to compensate for an unexpected shortfall in revenues during a particular quarter, and even a relatively small decrease in revenues could disproportionately and adversely affect our financial results for that quarter. The variability and unpredictability of these and other factors could result in our failing to meet financial expectations for a given period.

***Our contractual arrangements with Amazon, a significant customer, contain a number of material undertakings by us and other agreements the impact of which cannot be fully predicted in advance.***

In January 2017, we entered into a master purchase agreement with an affiliate of Amazon.com, Inc. governing sales of our systems and ink and other consumables at agreed-upon prices that vary based on sales volumes. We also agreed to provide maintenance services and extended warranties to Amazon at agreed prices. The term of the agreement is five years beginning on May 1, 2016 and extends automatically for additional one-year periods unless terminated by Amazon. The agreement was amended effective as of March 1, 2017, January 1, 2018 and June 29, 2018, respectively. Under the agreement, we were required to issue to an affiliate of Amazon warrants to purchase up to 2,932,176 of our ordinary shares, which vest based on payments made by Amazon in connection with the purchase of goods and services from us.

Our contractual agreements with Amazon contain a number of material undertakings and other arrangements:

- Our revenues are presented net of the relative value of the warrants in each particular period related to the revenues recognized. The value of the warrants is determined as the fair value as of January 1<sup>st</sup> 2019, and reported as a reduction of revenue in the Company's income statement when related revenues are recognized.
- We have agreed to provide a rebate to Amazon based on the number of systems and amount of ink and other consumables Amazon orders in a given 12-month period. The timing and scale of any such rebate may be difficult to predict and may cause fluctuations in our quarterly and annual revenues, gross profit and operating profit.
- We are required to notify Amazon 12 months in advance if we intend to stop supporting one of the products or services that we supply to Amazon and to continue to manufacture the product or provide such service during such 12-month period. Subject to certain exceptions, we are required to continue to supply ink in such quantities as Amazon requires for at least 36 months after the earlier of (1) the end of the term of the master purchase agreement or (2) 18 months following the purchase of the last product sold pursuant to the agreement.
- We are required to deliver our products and services to Amazon and to comply with a service level agreement. If we fail to meet the requirements under such service level agreement Amazon will receive credits against its cost for those delayed products or services.

The impact of the provisions listed above cannot be fully predicted in advance and could, in certain circumstances, adversely impact our business or results of operations, or the manner in which investors or analysts assess and perceive our performance.

***If our relationships with suppliers, especially with single source suppliers of components, were to terminate, our business could be harmed.***

We maintain an inventory of parts to facilitate the timely assembly of our systems, production of our ink and other consumables, and servicing our installed base. Most components are available from multiple suppliers, although certain components used in our systems and ink and other consumables, such as our print heads and certain chemicals included in our inks, are only available from single or limited sources as described below.

- The print heads for our systems are supplied by a sole supplier, FujiFilm Dimatix, Inc., or FDMX. We entered into an agreement with FDMX in 2015, pursuant to which FDMX sells us certain off-the-shelf print heads and additional products, all of which FDMX regularly sells to providers of inkjet systems. Our current agreement terminates in December 2022, at the conclusion of an initial three-year renewal period, and provides for further one-year renewal periods thereafter. The agreement provides that beginning with the start of the first one-year renewal period, FDMX may increase the prices of the products that we purchase from it upon 90-days' prior notice, subject to certain conditions. During the successive one-year periods, FDMX or we can terminate the agreement upon 90 days' notice prior to the end of the then-current term. Our agreement further provides that FDMX may, at its option, discontinue products supplied under the agreement, provided that we are given one-year notice of the planned discontinuance and are provided with an end-of-life purchase program.

- A chemical used in some of our inks is supplied by B.G. (Israel) Technologies Ltd., or BG Bond, a subsidiary of Ashtrom Ltd., a large public Israeli industrial company. We entered into an agreement with BG Bond in December 2016 pursuant to which we agree to purchase, and BG Bond agrees to produce this chemical at set prices. In exchange for an upfront payment, which is refundable upon the purchase of a minimum quantity of the chemical, BG Bond agreed to install additional equipment dedicated to the production of the chemical. The agreement is for a term of five years or until we purchase a certain agreed-upon minimum quantity and cannot be terminated by us other than in case of material breach by BG Bond. For some of our inks, this chemical is supplied by The Dow Chemical Company, a multinational producer of chemicals and other compounds. We currently purchase these chemicals from the Dow Chemical Company on a purchase order basis.
- Certain parts of the control system of our systems are supplied by a sole supplier, Yaskawa Europe Technology Ltd., or Yaskawa. Our turnkey suppliers (Flextronics and Sanmina), which assemble the control system on our behalf, purchase those control system parts from Yaskawa. We also purchase additional, spare control system parts from Yaskawa for our service department on a purchase order basis. Yaskawa maintains additional inventory of these control system parts as safety stock for our benefit, based on our requirements.
- One of our printing systems contains a dryer that we purchase from Adelco Screen Process, or Adelco, which serves as a sole supplier of that part. The dryer is supplied under an April 2019 agreement that we entered into with Adelco.

The loss of any of these suppliers, or of a supplier for which there are limited other sources, could result in the delay of the manufacture and delivery of our systems or inks and other consumables. For instance, FDMX has from time to time indicated that it may discontinue manufacturing the print head that we currently source from it and use in our systems, although it has never provided notice that it is actually doing so. In the event FDMX discontinues manufacturing the print head, we would be required to qualify a new print head for our systems. In order to minimize the risk of any impact from a disruption or discontinuation in the supply of print heads, raw materials or other components from limited source suppliers, we maintain an additional inventory of such components, in addition to the end of life purchase program that would be available to us if the products we purchase from FDMX were discontinued. Nevertheless, such inventory may not be sufficient to enable us to continue supplying our products should we need to locate and qualify a new supplier.

Other risks stemming from our reliance on suppliers include:

- if we experience an increase in demand for our solutions, our suppliers may be unable to provide us with the components that we need in order to meet that increased demand in a timely manner;
- our suppliers may encounter financial hardships unrelated to our demand for components, which could inhibit their ability to fulfill our orders and meet our requirements;
- we may experience production delays related to the evaluation and testing of products from alternative suppliers;
- we may be subject to price fluctuations due to a lack of long-term supply arrangements for key components;
- we or our suppliers may lose access to critical services and components, resulting in an interruption in the manufacture, assembly and shipment of our systems or inks and other consumables; and
- fluctuations in demand for components that our suppliers manufacture for others may affect their ability or willingness to deliver components to us in a timely manner.

If any of these risks materialize, the costs associated with developing alternative sources of supply or assembly in a timely manner could have a material adverse effect on our ability to meet demand for our solutions. Our ability to generate revenues could be impaired, market acceptance of our solutions could be adversely affected, and customers may instead purchase or use alternative products. We may not be able to find new or alternative components of a requisite quality or find that we are unable to reconfigure our systems and manufacturing processes in a timely manner if the necessary components become unavailable. As a result, we could incur increased production costs, experience delays in the delivery of our solutions and suffer harm to our reputation, which may have an adverse effect on our business and results of operations.

***Our new Kiryat Gat facility is being constructed on lands leased by the Company from the Israel Lands Administration, or ILA. If we are unable to continue to use such lands, we would be unable to use the facility and our results of operations and future prospects will suffer as a result. In addition, construction of the facility may subject us to risks of construction delays or cost overruns.***

In November 2018, we entered into a development agreement, which we refer to as the Development Agreement, with the ILA for the construction of our new, modern, manufacturing facility in Kiryat Gat on lands leased from the ILA. Construction has begun and is currently expected to be completed by 2020. The Development Agreement provides that if our company were a “foreign subject,” which includes our company being under foreign control (i.e., a majority of our ordinary shares are held by non-Israelis), that would constitute a fundamental breach under the agreement. We intend to follow a specific standard process for seeking approval from the ILA in which the ILA approves our entering into the Development Agreement despite our potential status as a “foreign subject,” since our shares are traded on Nasdaq, and we are held by multiple shareholders whose identities are unknown. However, should such approval not be provided, the ILA would be entitled to terminate the Development Agreement if our company would be considered a “foreign subject” under the terms of such agreement. If the Development Agreement were terminated, we would be unable to use the new Kiryat Gat facility being constructed on this property pursuant to the Development Agreement, which would have a material adverse effect on our results of operations.

In addition, in January 2019 we entered into a primary contractor agreement with Agrotop Ltd. to begin construction of our Kiryat Gat facility. In April 2019, we entered into an agreement with Y.V. Galil Engineering Ltd. for the design and installation of a production line at the new facility. We are also paying Galil Engineering on a time and materials basis. The construction of the new facility, including the production line, is expected to be completed on or about August 2020. We anticipate some delays due to the Coronavirus effect. We currently estimate that the total cost for land, construction of the facility and design and installation of the production line will be approximately NIS 62 million (approximately \$17.5 million based on current exchange rates). This project is subject to risks of delay or cost overruns inherent in any construction project resulting from numerous factors, including the following:

- shortages of key equipment, materials or skilled labor;
- unscheduled delays in the delivery of ordered materials and equipment;
- unanticipated cost increases;
- weather interferences; and
- difficulties in obtaining necessary permits or in meeting permit conditions.

A material delay or cost overrun in connection with the construction of the Kiryat Gat facility or the installation of the production line could adversely impact our results of operations and future prospects.

***Disruption of operations at our manufacturing site or those of third-party manufacturers could prevent us from filling customer orders on a timely basis.***

We manufacture our ink and other consumables at our facility in Kiryat Gat, Israel (which we are in the process of replacing with a new, modern facility being constructed). We also rely on contract manufacturing services provided by Flextronics Israel Ltd. and Sanmina-SCI Israel Medical Systems Ltd., which are also in Israel, to assemble our systems. We expect that almost all of our revenues in the near term will be derived from the systems and ink and other consumables manufactured at these facilities.

The loss of any of these contract manufacturers could result in the delay of the assembly and delivery of our systems. If that occurs or these contract manufacturers cease to provide manufacturing services for any reason, the costs associated with developing alternative sources of assembly in a timely manner could have a material adverse effect on our ability to meet demand for our solutions. Our ability to generate revenues could be impaired, market acceptance of our solutions could be adversely affected, and customers may instead purchase or use alternative products.

If operations in any of these facilities were to be disrupted due to a major equipment failure or power failure lasting beyond the capabilities of backup generators or other events outside of our reasonable control, our manufacturing capacity could be shut down for an extended period, we could experience a loss of raw materials or finished goods inventory and our ability to operate our business would be harmed. In addition, in any such event, the repair or reconstruction of our or our third-party manufacturers' manufacturing facilities and storage facilities could take a significant amount of time. During this period, we or our third-party manufacturers would be unable to manufacture some or all of our systems or we may not be able to produce our ink and other consumables. In addition, at any given moment we have only a limited inventory of our systems and ink and other consumables that we can supply to our customers in the event that our manufacturing is disrupted.

***Our operating results could decline in the near-term if we fail to execute on our growth strategies.***

Our operating margin was 4.2% in 2019 and 3.9% in 2018, and we had an operating loss of 1.8% in 2017. Our growth strategies, many of which are aimed at achieving operating and net profit margins, include increasing sales to existing customers, acquiring new high-volume customers, capitalizing on growth in our targeted markets and extending our serviceable addressable market by continuing to enhance our solutions. If we do not execute these strategies successfully, it could adversely impact our revenues and have a negative impact on our operating and net profit margins.

***Our business and operations may be negatively affected if we fail to effectively manage our growth.***

We have experienced significant growth in a relatively short period of time and intend to continue to grow our business. Our revenues grew from \$66.4 million in 2014 to \$179.9 million in 2019. Our headcount increased from 251 as of December 31, 2014 to 547 as of December 31, 2019. We plan to continue to hire additional employees across all areas of our company. Our rapid growth has placed significant demands on our management, sales and operational and financial infrastructure, and our growth will continue to place significant demands on these resources. Further, in order to manage our future growth effectively, we must continue to improve our IT and financial infrastructure, operating and administrative systems and controls and efficiently manage headcount, capital and processes. We may not be able to successfully implement these improvements in a timely or efficient manner, and our failure to do so may materially impact our projected growth rate.

***Significant disruptions of our information technology systems or breaches of our data security could adversely affect our business.***

A significant invasion, interruption, destruction or breakdown of our information technology, or IT, systems and/or infrastructure by persons with authorized or unauthorized access could negatively impact our business and operations. We could also experience business interruption, information theft and/or reputational damage from cyber attacks, which may compromise our systems and lead to data leakage either internally or at our third party suppliers or customers. Both data that has been inputted into our main IT platform, which covers records of transactions, financial data and other data reflected in our results of operations, as well as data related to our proprietary rights (such as research and development, and other intellectual property- related data), are subject to material cyber security risks. Our IT systems have been, and are expected to continue to be, the target of malware and other cyber attacks. To date, we are not aware that we have experienced any loss of, or disruption to, material information as a result of any such malware or cyber attack.

We have invested in advanced protective systems to reduce these risks, some of which have been installed and others that are still in the process of installation. Based on information provided to us by the suppliers of our protective systems, we believe that our level of protection is in keeping with the customary practices of peer technology companies. We also maintain back-up files for much of our information, as a means of assuring that a breach or cyber attack does not necessarily cause the loss of that information. We furthermore review our protections and remedial measures periodically in order to ensure that they are adequate.

Despite these protective systems and remedial measures, techniques used to obtain unauthorized access are constantly changing, are becoming increasingly more sophisticated and often are not recognized until after an exploitation of information has occurred. We may be unable to anticipate these techniques or implement sufficient preventative measures, and we therefore cannot assure you that our preventative measures will be successful in preventing compromise and/or disruption of our information technology systems and related data. We furthermore cannot be certain that our remedial measures will fully mitigate the adverse financial consequences of any cyber attack or incident.

***We and our customers are subject to extensive environmental, health and safety laws and regulations which, if not met, could have a material adverse effect on our business, financial condition and results of operations.***

Our manufacturing and development facilities use chemicals and produce waste materials, which require us to hold business licenses that may include conditions set by the Ministry of Environmental Protection for the operations of such facilities. We are also subject to extensive environmental, health and safety laws and regulations governing, among other things, the use, storage, registration, handling and disposal of chemicals and waste materials, the presence of specified substances in electrical products, air, water and ground contamination, air emissions and the cleanup of contaminated sites. In the future we may incur expenditure of significant amounts in the event of non-compliance and/or remediation. Furthermore, requirements of environmental laws have adversely affected and may continue to adversely affect the ability of our customers to install and use our systems in a timely manner. If we fail to comply with such laws or regulations, we may be subject to fines and other civil, administrative or criminal sanctions, including the revocation of our toxin permit, business permits, or other permits and licenses necessary to continue our business activities. In addition, we may be required to pay damages or civil judgments in respect of third-party claims, including those relating to personal injury, including exposure to hazardous substances that we use, store, handle, transport, manufacture or dispose of, or property damage. Some environmental, health and safety laws and regulations allow for strict, joint and several liability for remediation costs, regardless of comparative fault. We may be identified as a potentially responsible party under such laws. In addition, our customers may encounter delays in obtaining or be unable to obtain regulatory permits to operate our systems in their facilities, which may result in cancellation or delay of orders of our systems.

The export of our products internationally subjects us to environmental laws and regulations concerning the import and export of chemicals and hazardous substances. In the European marketplace, electrical and electronic equipment is required to comply with the Directive on Waste Electrical and Electronic Equipment, or WEEE, which aims to prevent waste by encouraging reuse and recycling, and the Directive on Restriction of Use of Certain Hazardous Substances, or RoHS, which restricts the use of ten hazardous substances in electrical and electronic products. Additionally, we are required to comply with certain laws, regulations and directives such as the United States Toxic Substances Control Act, or TSCA, and the Registration, Evaluation, Authorization and Restriction of Chemical Substances, or REACH. These laws and regulations require the testing and registration of some chemicals that we ship along with, or that form a part of, our systems and other products. If we fail to comply with these or similar laws and regulations, we may be required to make significant expenditures to reformulate the chemicals that we use in our products and materials or incur costs to register such chemicals to gain and/or regain compliance. Additionally, we could be subject to significant fines or other civil and criminal penalties should we not achieve such compliance.

Any of such developments could have a material adverse effect on our business, financial condition and results of operations. Environmental, health and safety laws and regulations may also change from time to time. Complying with any new requirements may involve substantial costs and could cause significant disruptions to our research, development, manufacturing, and sales.

***Exchange rate fluctuations between the U.S. dollar and the Israeli shekel, the Euro and other non-U.S. currencies may negatively affect our earnings.***

The U.S. dollar is our functional and reporting currency. However, a significant portion of our operating expenses are incurred in Israeli shekels, or NIS. As a result, we are exposed to the risk that the NIS may appreciate relative to the dollar, or, if the NIS instead devalues relative to the dollar, that the inflation rate in Israel may exceed such rate of devaluation of the NIS, or that the timing of such devaluation may lag behind inflation in Israel. In any such event, the dollar cost of our operations in Israel would increase and our dollar-denominated results of operations would be adversely affected. To protect against an increase the dollar-denominated value of expenses paid in NIS during the year, we have instituted a foreign currency cash flow hedging program, which seeks to hedge a portion of the economic exposure associated with our anticipated NIS-denominated expenses using derivative instruments. We expect that the substantial majority of our revenues will continue to be denominated in U.S. dollars for the foreseeable future and that a significant portion of our expenses will continue to be denominated in NIS. We cannot provide any assurances that our hedging activities will be successful in protecting us in full from adverse impacts from currency exchange rate fluctuations since we only plan to hedge a portion of our foreign currency exposure, and we cannot predict any future trends in the rate of inflation in Israel or the rate of devaluation (if any) of the NIS against the dollar. For example, based on annual average exchange rates, the NIS appreciated by 6.3%, 0.1% and 0.9% against the dollar in 2017, 2018 and 2019, respectively. During these periods, there was inflation of 0.4%, 0.8% and 0.6% in Israel in 2017, 2018 and 2019, respectively. If the dollar cost of our operations increases, our dollar-measured results of operations will be adversely affected. See “ITEM 11. Quantitative and Qualitative Disclosures about Market Risk—Foreign Currency Risk.”

In addition, a material portion of our leases are denominated in currencies other than the U.S. dollar, mainly in NIS. In accordance with a new lease accounting standard, which became effective on January 1, 2019, the associated lease liabilities will be remeasured using the current exchange rate in future reporting periods, which may result in material foreign exchange gains or losses. See Note 2, “Significant Accounting Policies”, to the consolidated financial statements included in Item 18 of this annual report for more details.

***Our business could suffer if we are unable to attract and retain key employees.***

Our success depends upon the continued service and performance of our senior management and other key personnel. Our senior executive team is critical to the management of our business and operations, as well as to the development of our strategies. The loss of the services of any of these personnel could delay or prevent the continued successful implementation of our growth strategy, or our commercialization of new applications for our systems and ink and other consumables, or could otherwise affect our ability to manage our company effectively and to carry out our business plan. Members of our senior management team may resign at any time. High demand exists for senior management and other key personnel in our industry. There can be no assurance that we will be able to continue to retain such personnel. Following certain previously reported changes to our senior management team in 2018 and 2019, effective as of April 1, 2020, Gilad Yron, our Executive VP Global Business, will no longer serve in that role at our company and will be succeeded by Ms. Jecka Glasman, our recently appointed Chief Commercial Officer. To the extent we experience additional frequent changes in our leadership team (or the leadership teams of our subsidiaries) going forward, that could adversely affect our performance in a material manner.

Our growth and success also depend on our ability to attract and retain additional highly qualified scientific, technical, sales, managerial, operational, HR, marketing and finance personnel. We compete to attract qualified personnel, and, in some jurisdictions in which we operate, the existence of non-competition agreements between prospective employees and their former employers may prevent us from hiring those individuals or subject us to lawsuits from their former employers. While we attempt to provide competitive compensation packages to attract and retain key personnel, some of our competitors have greater resources and more experience than we have, making it difficult for us to compete successfully for key personnel. If we cannot attract and retain sufficiently qualified technical employees for our research and development operations on acceptable terms, we may not be able to continue to competitively develop and commercialize our solutions or new applications for our existing systems. Further, any failure to effectively integrate new personnel could prevent us from successfully growing our company.



***Under applicable employment laws, we may not be able to enforce covenants not to compete and therefore may be unable to prevent our competitors from benefiting from the expertise of some of our former employees.***

We generally enter into non-competition agreements with our employees. These agreements prohibit our employees, if they cease working for us, from competing directly with us or working for our competitors or clients for a limited period. We may be unable to enforce these agreements under the laws of the jurisdictions in which our employees work and it may be difficult for us to restrict our competitors from benefiting from the expertise that our former employees or consultants developed while working for us. For example, Israeli labor courts have required employers seeking to enforce non-compete undertakings of a former employee to demonstrate that the competitive activities of the former employee will harm one of a limited number of material interests of the employer that have been recognized by the courts, such as the secrecy of a company's trade secrets or other intellectual property.

***We have a significant presence in international markets and plan to continue to expand our international operations, which exposes us to a number of risks that could affect our future growth.***

We have a worldwide sales, marketing and support infrastructure that is comprised of independent distributors and value added resellers, and our own personnel resulting in a sales, marketing and support presence in over 100 countries, including markets in North America, Western and Eastern Europe, the Asia Pacific region and Latin America. We expect to continue to increase our sales headcount, our applications development headcount, our field support headcount, our marketing headcount and our engineering headcount and, in some cases, establish new relationships with distributors, particularly in markets where we currently do not have a sales or customer support presence. As we continue to expand our international sales and operations, we are subject to a number of risks, including the following:

- greater difficulty in enforcing contracts and accounts receivable collection, as well as longer collection periods;
- increased expenses incurred in establishing and maintaining office space and equipment for our international operations;
- fluctuations in exchange rates between the U.S. dollar and foreign currencies in markets where we do business;
- greater difficulty in recruiting local experienced personnel, and the costs and expenses associated with such activities;
- general economic and political conditions in these foreign markets;
- economic uncertainty around the world, including in respect of how our operations and sales in the European Union and the United Kingdom may potentially be impacted by Brexit;
- management communication and integration problems resulting from cultural and geographic dispersion;
- disruption to the supply of certain of our raw materials for our products that are sourced in countries impacted by the coronavirus outbreak, due to the slowdown in activity there (although our products are manufactured in Israel only);
- adverse impact to our revenues worldwide, due to the spread of the coronavirus throughout the world, which has reduced economic activity in markets into which we sell our products;
- risks associated with trade restrictions and foreign legal requirements, including the importation, certification, and localization of our solutions required in foreign countries, such as high import taxes in Brazil and other Latin American markets where we sell our products;
- greater risk of unexpected changes in regulatory practices, tariffs, and tax laws and treaties;
- the uncertainty of protection for intellectual property rights in some countries;

- greater risk of a failure of employees to comply with both U.S. and foreign laws, including antitrust regulations, the U.S. Foreign Corrupt Practices Act, or FCPA, the European Union General Data Protection Regulation, or GDPR (which broadened the scope of personal privacy laws to protect the rights of European Union citizens and requires organizations to report on data breaches promptly and obtain the consent of individuals on how their data can be used), the California Consumer Privacy Act, or CCPA (which imposes enhanced disclosure requirements for us vis-à-vis our interactions with customers that are residents of California), and any trade regulations ensuring fair trade practices; and
- heightened risk of unfair or corrupt business practices in certain regions and of improper or fraudulent sales arrangements that may impact financial results and result in restatements of, or irregularities in, financial statements.

Any of these risks could adversely affect our international operations, reduce our revenues from outside the United States or increase our operating costs, adversely affecting our business, results of operations and financial condition and growth prospects. There can be no assurance that all of our employees and channel partners will comply with the formal policies that we have in place and/or will implement, or applicable laws and regulations. Violations of laws or key control policies by our employees and channel partners could result in delays in revenue recognition, financial reporting misstatements, fines, penalties or the prohibition of the importation or exportation of our software and services and could have a material adverse effect on our business and results of operations.

***If we are unable to obtain patent protection for our solutions or otherwise protect our intellectual property rights, our business could suffer.***

The success of our business depends on our ability to protect our proprietary technology, brand owners and other intellectual property and to enforce our rights in that intellectual property. We attempt to protect our intellectual property under patent, trademark, copyright and trade secret laws, and through a combination of confidentiality procedures, contractual provisions and other methods, all of which offer only limited protection.

As of December 31, 2019, we owned twenty-three (23) issued patents in the United States and twenty-three (23) provisional or pending U.S. patent applications, along with thirty-three (33) pending non-U.S. patent applications. We also had eighteen (18) patents issued in non-U.S. jurisdictions, and eleven (11) pending Patent Cooperation Treaty patent applications, which are counterparts of our U.S. patent applications. The non-U.S. jurisdictions in which we have issued patents or pending applications are China, the European Union or European countries of the European Union, Hong Kong, Israel, Canada, Australia, Republic of Korea, South Africa, Brazil, Japan and India. We may file additional patent applications in the future. The process of obtaining patent protection is expensive, time-consuming, and uncertain, and we may not be able to prosecute all necessary or desirable patent applications at a reasonable cost or in a timely manner all the way through to the successful issuance of a patent. We may choose not to seek patent protection for certain innovations and may choose not to pursue patent protection in certain jurisdictions. Furthermore, it is possible that our patent applications may not issue as granted patents, that the scope of our issued patents will be insufficient or not have the coverage originally sought, that our issued patents will not provide us with any competitive advantages, and that our patents and other intellectual property rights may be challenged by others through administrative processes or litigation resulting in patent claims being narrowed, invalidated, or unenforceable. In addition, issuance of a patent does not guarantee that we have an absolute right to practice the patented invention. Our policy is to require our employees (and our consultants and service providers, including third-party manufacturers of our systems and components, that develop intellectual property included in our systems) to execute written agreements in which they assign to us their rights in potential inventions and other intellectual property created within the scope of their employment (or, with respect to consultants and service providers, their engagement to develop such intellectual property), but we cannot assure you that we have adequately protected our rights in every such agreement or that we have executed an agreement with every such party. Finally, in order to benefit from the protection of patents and other intellectual property rights, we must monitor and detect infringement and pursue infringement claims in certain circumstances in relevant jurisdictions, all of which are costly and time-consuming. As a result, we may not be able to obtain adequate protection or to effectively enforce our issued patents or other intellectual property rights.

In addition to patents, we rely on trade secret rights, copyrights, trademarks, and other rights to protect our proprietary intellectual property and technology. Despite our efforts to protect our proprietary intellectual property and technology, unauthorized parties, including our employees, consultants, service providers or customers, may attempt to copy aspects of our solutions or obtain and use our trade secrets or other confidential information. We generally enter into confidentiality agreements with our employees, consultants, service providers, vendors, channel partners and customers, and generally limit access to and distribution of our proprietary information and proprietary technology through certain procedural safeguards. These agreements may not effectively prevent unauthorized use or disclosure of our intellectual property or technology and may not provide an adequate remedy in the event of unauthorized use or disclosure of our intellectual property or technology. We cannot assure you that the steps taken by us will prevent misappropriation of our intellectual property or technology or infringement of our intellectual property rights. In addition, the laws of some foreign countries where we sell or distribute our solutions do not protect intellectual property rights and technology to the same extent as the laws of the United States, and these countries may not enforce these laws as diligently as government agencies and private parties in the United States. Based on the 2017 report on intellectual property rights protection and enforcement published by the Office of the United States Trade Representative, such countries included Argentina, Chile, China, India, Indonesia, Russia, Thailand and Ukraine (designated as priority watch list countries).

***If we are unable to protect our trademarks from infringement, our business prospects may be harmed.***

We own trademarks that identify “Kornit” “NeoPigment” and the “K” logo, and we have an additional pending trademark application for the “Konnect” logo, among others, and have registered these trademarks in certain key markets. Although we take steps to monitor the possible infringement or misuse of our trademarks, third parties may violate our trademark rights. In addition, we may not have trademark rights in all of the markets in which we may sell our products. Any unauthorized use of our trademarks could harm our reputation or commercial interests. In addition, efforts to enforce our trademarks may be expensive and time-consuming and may not effectively prevent infringement.

Our trademark rights may furthermore be subject to litigation. During 2016 we were subject to an opposition to our application to the European Union Intellectual Property Office, or EUIPO, to register the “Kornit” trademark in the European Union, on the part of Grupo FB Maquinaria, S.A., or Grupo, which claimed that it had earlier registered that trademark. While we ultimately succeeded, and the EUIPO ruled in our favor in April 2019 and registered the trademark in our name, we could face similar future challenges to our trademark rights in various jurisdictions around the globe.

***We may become subject to claims of intellectual property infringement by third parties or may be required to indemnify our distributors or other third parties against such claims, which, regardless of their merit, could result in litigation, distract our management and materially adversely affect our business, results of operations or financial condition.***

We have in the past and may in the future become subject to third-party claims that assert that our solutions, services and intellectual property infringe, misappropriate or otherwise violate third-party intellectual property or other proprietary rights.

Intellectual property disputes can be costly and disruptive to our business operations by diverting the attention and energies of management and key technical personnel, and by increasing our costs of doing business. Even if a claim is not directly against us, our agreements with distributors generally require us to indemnify them against losses from claims that our products infringe third-party intellectual property rights and entitle us to assume the defense of any claim as part of the indemnification undertaking. Our assumption of the defense of such a claim may result in similar costs, disruption and diversion of management attention to that of a claim that is asserted directly against us. We may not prevail in any such dispute or litigation, and an adverse decision in any legal action involving intellectual property rights could harm our intellectual property rights and the value of any related technology or limit our ability to execute our business.

Adverse outcomes in intellectual property disputes could:

- require us to redesign our technology or force us to enter into costly settlement or license agreements on terms that are unfavorable to us;

- prevent us from manufacturing, importing, using, or selling some or all of our solutions;
- disrupt our operations or the markets in which we compete;
- impose costly damage awards;
- require us to indemnify our distributors and customers; and
- require us to pay royalties.

***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, 5727-1967, 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 proprietary rights. The Patent Law also provides under Section 134 that if there is no agreement between an employer and an employee as to whether the employee is entitled to consideration for service inventions, and to what extent and under which conditions, the Israeli Compensation and Royalties Committee, or the Committee, a body constituted under the Patent Law, shall determine these issues. Section 135 of the Patent law provides criteria for assisting the Committee in making its decisions. According to case law handed down by the Committee, an employee’s right to receive consideration for service inventions is a personal right and is entirely separate from the proprietary rights in such invention. Therefore, this right must be explicitly waived by the employee. A decision handed down in May 2014 by the Committee clarifies that the right to receive consideration under Section 134 can be waived and that such waiver can be made orally, in writing or by behavior like any other contract. The Committee will examine, on a case by case basis, the general contractual framework between the parties, using interpretation rules of the general Israeli contract laws. Further, the Committee has not yet determined one specific formula for calculating this remuneration, nor the criteria or circumstances under which an employee’s waiver of his right to remuneration will be disregarded. Similarly, it remains unclear whether waivers by employees in their employment agreements of the alleged right to receive consideration for service inventions should be declared as void being a depriving provision in a standard contract. 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. 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 service inventions beyond their regular salary and benefits, we may face claims demanding remuneration in consideration for assigned inventions.

***Undetected defects in the design or manufacturing of our products may harm our business and results of operations.***

Our systems, ink and other consumables, and associated software may contain undetected errors or defects when first introduced or as new versions are released. We have experienced these errors or defects in the past during the introduction of new systems and system upgrades. We expect that these errors or defects will be found from time to time in new or enhanced systems after commencement of commercial distribution or upon software upgrades. These problems may cause us to incur significant warranty and repair costs, divert the attention of our engineers from our product development and customer service efforts and harm our reputation. We may experience a delay in revenue recognition or collection of due payments from relevant customers as a result of our systems’ inability to meet agreed performance metrics. In addition, the use of third-party inks may harm the operation of our systems and reduce customer satisfaction with them, which could harm our reputation and adversely affect sales of our systems. We may also be subject to liability claims for damages related to system errors or defects. Although we carry insurance policies covering this type of liability, these policies may not provide sufficient protection should a claim be asserted against us. Any product liability claim brought against us could force us to incur significant expenses, divert management time and attention, and harm our reputation and business. In addition, costs or payments made in connection with warranty and product liability claims and system recalls could materially affect our financial condition and results of operations.

***We may need substantial additional capital in the future, which may cause dilution to our existing shareholders, restrict our operations or require us to relinquish rights to our pipeline products or intellectual property. If additional capital is not available, we may have to delay, reduce or cease operations.***

Based on our current business plan, we believe our cash flows from operating activities and our existing cash resources will be sufficient to meet our currently anticipated cash requirements through the next 12 months without drawing on our lines of credit or using significant amounts of the net proceeds from our initial public offering and follow-on offering. Nevertheless, to the extent our anticipated cash requirements change, we may seek additional funding in the future. This funding may consist of equity offerings, debt financings or any other means to expand our sales and marketing capabilities, develop our future solutions or pursue other general corporate purposes. Securing additional financing may divert our management from our day-to-day activities, which may adversely affect our ability to market our current solutions and develop and sell future solutions. Additional funding may not be available to us on acceptable terms, or at all.

To the extent that we raise additional capital through, for example, the sale of equity or convertible debt securities, your ownership interest will be diluted, and the terms may include liquidation or other preferences that adversely affect your rights as a shareholder. The incurrence of indebtedness or the issuance of certain equity securities could result in increased fixed payment obligations and could also result in certain restrictive covenants, such as limitations on our ability to incur additional debt, limitations on our ability to acquire or license intellectual property rights and other operating restrictions that could adversely impact our ability to conduct our business. In addition, the issuance of additional equity securities by us, or the possibility of such issuance, may cause the market price of our ordinary shares to decline.

***We have acquired businesses and may acquire other businesses and/or companies, which could require significant management attention, disrupt our business, dilute shareholder value, and adversely affect our results of operations.***

As part of our business strategy and in order to remain competitive, we have acquired businesses and may acquire or make investments in other complementary companies, products or technologies. However, we have only made small acquisitions and our experience in acquiring and integrating other companies, products or technologies is limited. We may not be able to find suitable acquisition candidates, and we may not be able to complete such acquisitions on favorable terms, if at all. If we complete other acquisitions, we may not ultimately strengthen our competitive position or achieve our goals, and any acquisitions we complete could be viewed negatively by our customers, analysts and investors. In addition, if we are unsuccessful at integrating such acquisitions or the technologies associated with such acquisitions, our revenues and results of operations may be adversely affected. Any integration process may require significant time and resources, and we may not be able to manage the process successfully. We may not successfully evaluate or utilize the acquired technology or personnel, or accurately forecast the financial impact of an acquisition transaction, including accounting charges. We may have to pay cash, incur debt or issue equity securities to pay for any such acquisition, each of which could adversely affect our financial condition or the value of our ordinary shares. The sale of equity or issuance of debt to finance any such acquisitions could result in dilution to our shareholders. The incurrence of indebtedness would result in increased fixed obligations and could also include covenants or other restrictions that would impede our ability to manage our operations.

***We may be subject to additional tax liabilities in the future as a result of audits of our tax returns.***

We are subject to income taxes principally in Israel, Germany, Hong-Kong and the United States. Significant judgment is required in evaluating our uncertain tax positions and determining our provision for income taxes. We recognize income taxes under the liability method. Tax benefits are recognized from uncertain tax positions only if we believe that it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. We are currently subject to a tax audit for the years 2013 to 2018 by the Israeli Tax Authority, or ITA. We have received the assessments for years 2013 and 2014 and they subject to another review by the ITA before they are finalized. The company is eligible to send its comments before the second review. According to a legal opinion we have received from our legal counsels, the claims we had and the positions we took on our tax returns are solid and valid, and we don't believe the first assessment will be effective. The ITA may furthermore disagree with our positions taken in our tax returns for any other years as well, and we may be subject to additional tax liabilities, which could have a material adverse effect on our results of operations.

***The widespread outbreak of illness due to the coronavirus may hurt our business in many ways, and, if prolonged, would likely adversely impact our operating results and financial condition in a significant manner.***

Our business has begun to be adversely affected by the recent, widespread outbreak of respiratory illness caused by the coronavirus that was first identified in Wuhan, Hubei Province, China. If that outbreak continues or worsens, or if any other outbreak of contagious diseases occurs, and is accompanied by further adverse public health developments, that will likely have a material and adverse effect on our business operations. The impact could include disruptions or restrictions on our ability to ensure the continuous manufacture and supply of our systems and services, as well as temporary closures of our facilities or the facilities of the third-party distributors or service providers for our systems. Any such disruptions or restrictions will adversely impact our revenues, cash flows, and profitability, as well as our overall operating results and financial condition. In addition, the outbreak of contagious diseases in the human population that results in a prolonged widespread health crisis that adversely affects the economies and financial markets worldwide and causes an economic downturn will affect demand for our products and services and significantly adversely impact our operating results.

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

#### ***Our share price may be volatile.***

Our ordinary shares were first offered publicly in our initial public offering in April 2015 at a price of \$10.00 per share, and our ordinary shares have subsequently traded as high as \$44.55 and as low as \$8.10 through March 15, 2020. The market price of our ordinary shares could be highly volatile and may fluctuate substantially as a result of many factors, including:

- actual or anticipated variations in our and/or our competitors' results of operations and financial condition;
- variance in our financial performance from the expectations of market analysts;
- announcements by us or our competitors of significant business developments, changes in service provider relationships, acquisitions, strategic relationships or expansion plans;
- changes in the prices of our solutions;
- our involvement in litigation;
- our sale of ordinary shares or other securities in the future;
- market conditions in our industry;
- changes in key personnel;
- the trading volume of our ordinary shares;
- changes in the estimation of the future size and growth rate of our markets; and
- general economic and market conditions;

In addition, the stock markets have experienced extreme price and volume fluctuations. Broad market and industry factors may materially harm the market price of our ordinary shares, regardless of our operating performance. In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been instituted against that company. If we were involved in any similar litigation, we could incur substantial costs and our management's attention and resources could be diverted. Furthermore, share price volatility may impact the fair value of the warrants granted to Amazon and as a result may impact revenues and profits.

***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 (subject to any extraordinary market conditions that might arise) 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 should be investors' principal expected source of gain for the foreseeable future. To the extent that volatile or depressed market conditions (whether in the wake of the coronavirus outbreak or otherwise) reduce the trading price of our ordinary shares substantially for an extended period of time, we may potentially consider using a portion of our cash reserves for share repurchases. In addition to considerations related to corporate finance, 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.

***As a foreign private issuer whose shares are listed on the NASDAQ Global Select Market, we may follow certain home country corporate governance practices instead of otherwise applicable SEC and NASDAQ requirements, which may result in less protection than is accorded to investors under rules applicable to domestic U.S. issuers.***

As a foreign private issuer whose shares are listed on the NASDAQ Global Select Market, we are permitted to follow certain home country corporate governance practices instead of those otherwise required under the corporate governance standards for U.S. domestic issuers. We currently follow Israeli home country practices with regard to the (i) quorum requirement for shareholder meetings (25%, which is less than the one-third minimum required under the NASDAQ rules) and (ii) independent director oversight requirement for director nominations (the board as a whole, rather than an entirely independent nominating committee or only the independent directors, handles this under Israeli law). See "ITEM 16G. Corporate Governance." Furthermore, we may in the future elect to follow Israeli home country practices in lieu of the NASDAQ requirements on other matters, such as the requirement to hold separate executive sessions of independent directors or to obtain shareholder approval for certain dilutive events (such as for the establishment or amendment of certain equity-based compensation plans, issuances that will result in a change of control of the company, certain transactions other than a public offering involving issuances of a 20% or more interest in the company and certain acquisitions of the stock or assets of another company). Accordingly, our shareholders may not be afforded the same protection as provided under NASDAQ corporate governance rules. Following our home country governance practices as opposed to the requirements that would otherwise apply to a United States company listed on NASDAQ may provide less protection than is accorded to investors of domestic issuers. See "ITEM 16G. Corporate Governance."

***As a foreign private issuer, we are not subject to the provisions of Regulation FD or U.S. proxy rules and are exempt from filing certain Exchange Act reports.***

As a foreign private issuer, we are exempt from a number of requirements under U.S. securities laws that apply to public companies that are not foreign private issuers. In particular, we are exempt from the rules and regulations under 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 are not required under the Exchange Act to file annual and current reports and financial statements with the SEC as frequently or as promptly as U.S. domestic companies whose securities are registered under the Exchange Act and we are generally exempt from filing quarterly reports with the SEC under the Exchange Act. We are also exempt from the provisions of Regulation FD, which prohibits issuers from making selective disclosure of material nonpublic information to, among others, broker-dealers and holders of a company's securities under circumstances in which it is reasonably foreseeable that the holder will trade in the company's securities on the basis of the information. These exemptions and leniencies will reduce the frequency and scope of information and protections to which you are entitled as an investor.

We are not required to comply with the proxy rules applicable to U.S. domestic companies, including the requirement applicable to emerging growth companies to disclose the compensation of our Chief Executive Officer and other two most highly compensated executive officers on an individual, rather than on an aggregate, basis. Nevertheless, the Companies Law requires us to disclose in the notice of convening an annual general meeting the annual compensation of our five most highly compensated office holders on an individual basis, rather than on an aggregate basis, as was previously permitted for Israeli public companies listed overseas. This disclosure is not as extensive as that required of a U.S. domestic issuer.

We would lose our foreign private issuer status if a majority of our directors or executive officers are U.S. citizens or residents and we fail to meet additional requirements necessary to avoid loss of foreign private issuer status. Although we have elected to comply with certain U.S. regulatory provisions, our loss of foreign private issuer status would make such provisions mandatory. The regulatory and compliance costs to us under U.S. securities laws as a U.S. domestic issuer may be significantly higher. If we are not a foreign private issuer, we will be required to file periodic reports and registration statements on U.S. domestic issuer forms with the SEC, which are more detailed and extensive than the forms available to a foreign private issuer. We would also be required to follow U.S. proxy disclosure requirements, including the requirement to disclose more detailed information about the compensation of our senior executive officers on an individual basis. We may also be required to modify certain of our policies to comply with good governance practices associated with U.S. domestic issuers. Such conversion and modifications will involve additional costs. In addition, we would lose our ability to rely upon exemptions from certain corporate governance requirements on U.S. stock exchanges that are available to foreign private issuers.

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

Future sales by us or our shareholders of a substantial number of ordinary shares in the public market, or the perception that these sales might occur, could cause the market price of our ordinary shares to decline or could impair our ability to raise capital through a future sale of, or to pay for acquisitions using, our equity securities.

Amazon is entitled to certain registration rights with respect to the 2,932,176 ordinary shares underlying its warrants, pursuant to a transaction agreement that we entered into with Amazon on January 10, 2017 and that was effective on May 8, 2016. All shares sold pursuant to an offering covered by a registration statement will be freely transferable except if purchased by an affiliate. See “ITEM 10.C — Material Contracts — Agreements with Amazon — Transaction Agreement and Warrant” in this annual report.

In addition, 455,735 ordinary shares are issuable under currently vested and exercisable share options granted to employees and office holders as of February 14, 2020. We have filed registration statements on Form S-8 under the Securities Act registering our potential issuance of those ordinary shares under our share incentive plans, of which as of February 24, 2020, there were options, restricted share units and warrants to purchase 3,363,054 shares outstanding. Shares included in such registration statements may be freely sold in the public market upon issuance, except for shares held by affiliates who have certain restrictions on their ability to sell

***Under Section 404 of the Sarbanes-Oxley Act, because we are no longer an emerging growth company, we are for the first time required to obtain an auditor attestation regarding our internal control over financial reporting, which requires enhanced actions on our part that we may not successfully implement in an ongoing manner.***

Effective as of January 1, 2019, we no longer qualify as an “emerging growth company” under the JOBS Act, and we have lost the ability to rely on the exemptions related thereto. Consequently, for the first time, in connection with this annual report, our independent registered public accounting firm is required to attest to the effectiveness of our internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act. We are furthermore required (as we had been previously) to comply with the evaluation and certification requirements of Section 404 with respect to internal control over financial reporting. To maintain the effectiveness of our disclosure controls and procedures and our internal control over financial reporting, we may need to continue enhancing existing, and implement new, financial reporting and management systems, procedures and controls to manage our business effectively and support our growth in the future. Irrespective of compliance with Section 404, any failure of our internal controls could have a material adverse effect on our stated results of operations and harm our reputation. If any such failure were to occur, we may be required to take remedial actions and make required changes to our internal control over financial reporting and we may experience higher than anticipated operating expenses, as well as higher independent auditor fees during and after the implementation of these changes. If we are unable to implement any of the required changes to our internal control over financial reporting effectively or efficiently, it could adversely affect our operations, financial reporting and/or results of operations and could result in an adverse opinion on internal controls from our independent auditors.



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

Generally, if for any taxable year 75% or more of our gross income is passive income, or at least 50% of the average quarterly value of our assets (which may be determined in part by the market value of our ordinary shares, which is subject to change) are held for the production of, or produce, passive income, we would be characterized as a passive foreign investment company, or PFIC, for U.S. federal income tax purposes. Based on historic and certain estimates of our gross income, gross assets and market capitalization (which may fluctuate from time to time) and the nature of our business, we believe we were not a PFIC for the taxable year ended December 31, 2019 and we do not expect that we will be classified as a PFIC for the taxable year ending December 31, 2020. 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 our 2020 taxable year until after the close of the year. There can be no assurance that we will not be considered a PFIC for any taxable year. If we are characterized as a PFIC, our U.S. shareholders may suffer adverse tax consequences, including having gains realized on the sale of our ordinary shares treated as ordinary income, rather than as capital gain, the loss of the preferential rate applicable to dividends received on our ordinary shares by individuals who are U.S. Holders (as defined in “ITEM 10.E Taxation and Government Programs—U.S. Federal Income Taxation”), and having interest charges apply to distributions by us and the proceeds of sales of our ordinary shares. 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. For a more detailed discussion, see “ITEM 10.E Taxation and Government Programs - U.S. Federal Income Taxation - Passive Foreign Investment Company Considerations.”

***Certain U.S. holders of our ordinary shares may suffer adverse tax consequences if we or any of our non-U.S. subsidiaries are characterized as a “controlled foreign corporation”, or a CFC, under Section 957(a) of the Internal Revenue Code of 1986, as amended, or the Code.***

A non-U.S. corporation is considered a CFC if more than 50 percent of (1) the total combined voting power of all classes of stock of such corporation entitled to vote, or (2) the total value of the stock of such corporation, is owned, or is considered as owned by applying certain constructive ownership rules, by United States shareholders who own stock representing 10% or more of the vote or (for the taxable year of a non-U.S. corporation beginning after December 31, 2017 and for taxable years of shareholders with or within which such taxable years of such non-U.S. corporation ends) 10% or more of the value on any day during the taxable year of such non-U.S. corporation (“10% U.S. Shareholders”). Generally, a 10% U.S. Shareholder of a CFC is required to include currently in gross income such 10% U.S. Shareholder’s share of the CFC’s “Subpart F income”, a portion of the CFC’s earnings to the extent the CFC holds certain U.S. property, and certain other new items under the Tax Cuts and Jobs Act of 2017, or the Tax Act. Such 10% U.S. Shareholders are subject to current U.S. federal income tax with respect to such items, even if the CFC has not made an actual distribution to such shareholders. “Subpart F income” includes, among other things, certain passive income (such as income from dividends, interests, royalties, rents and annuities or gain from the sale of property that produces such types of income) and certain sales and services income arising in connection with transactions between the CFC and a person related to the CFC.

Certain changes to the CFC constructive ownership rules introduced by the Tax Act may cause one or more of our non-U.S. subsidiaries to be treated as CFCs, may also impact our CFC status and, thus, may affect holders of our common shares that are United States shareholders. For 10% U.S. Shareholders, this may result in adverse U.S. federal income tax consequences, such as current U.S. taxation of Subpart F income and of any such shareholder’s share of our accumulated non-U.S. earnings and profits (regardless of whether we make any distributions), taxation of amounts treated as global intangible low-taxed income under Section 951A of the Code with respect to such shareholder, and being subject to certain reporting requirements with the U.S. Internal Revenue Service. Any 10% U.S. Shareholder should consult its own tax advisors regarding the U.S. tax consequences of acquiring, owning, or disposing our common shares and the impact of the Tax Act, especially the changes to the rules relating to CFCs. We have taken steps with the assistance of external tax consultants to prevent our subsidiaries from being treated as CFCs subsidiaries and it is not expected that any of the subsidiaries will be treated as CFCs.

***If equity research analysts do not publish research or reports about our business or if analysts, including short sellers, issue unfavorable commentary or downgrade our ordinary shares, the price of our ordinary shares could decline. Additionally, we may fail to meet publicly announced financial guidance or other expectations about our business, which would cause our ordinary shares to decline in value.***

The trading market for our ordinary shares relies in part on the research and reports that equity research analysts publish about us and our business. The price of our ordinary shares could decline if one or more securities analysts downgrade our ordinary shares or if one or more of those analysts issue other unfavorable commentary or cease publishing reports about us or our business. The market price for our ordinary shares has been in the past, and may be in the future, materially and adversely affected by allegations made in reports issued by short sellers regarding our business model, our management and our financial accounting. If our financial results for a particular period do not meet our guidance or if we reduce our guidance for future periods, the market price of our ordinary shares may decline.

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

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

Our headquarters, research and development and manufacturing facility, and the primary manufacturing facilities of our third-party manufacturers, are located in Israel. In addition, the majority of our key employees, officers and directors are residents of Israel. Accordingly, political, economic and military conditions in Israel may directly affect our business. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its neighboring countries. In recent years, these have included hostilities between Israel and Hezbollah in Lebanon and Hamas in the Gaza Strip, both of which resulted in rockets being fired into Israel, causing casualties and disruption of economic activities. In addition, Israel faces threats from more distant neighbors, in particular, Iran. Our commercial insurance does not cover losses that may occur as a result of an event associated with the security situation in the Middle East. Although the Israeli government is currently committed to covering 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 if maintained, will be sufficient to compensate us fully for damages incurred. Any losses or damages incurred by us could have a material adverse effect on our business. While we have commenced implementation of a business continuity plan which provides for alternative sites outside of Israel, there can be no assurance that such plan will be successful. Any armed conflict involving Israel could adversely affect our operations and results of operations.

Further, our operations could be disrupted by the obligations of personnel to perform military service. As of December 31, 2019, we had 339 employees based in Israel, certain of whom may be called upon to perform up to 54 days in each three year period (and in the case of non-officer commanders or officers, up to 70 or 84 days, respectively, in each three year period) of military reserve duty until they reach the age of 40 (and in some cases, depending on their specific military profession, up to 45 or even 49 years of age) and, in certain emergency circumstances, may be called to immediate and unlimited active duty. Our operations could be disrupted by the absence of a significant number of employees related to military service, which could materially adversely affect our business and results of operations.

Several countries, principally in the Middle East, restrict doing business with Israel and Israeli companies, and additional countries may impose restrictions on doing business with Israel and Israeli companies whether as a result of hostilities in the region or otherwise. In addition, there have been increased efforts by activists to cause companies and consumers to boycott Israeli goods based on Israeli government policies. Such actions, particularly if they become more widespread, may adversely impact our ability to sell our solutions.

In addition, the shipping and delivery of our systems and ink and other consumables from our manufacturing facilities and those of our third-party manufacturers in Israel could be delayed or interrupted by political, economic, military, and other events outside of our reasonable control, including labor strikes at ports in Israel or at ports of destination, military attacks on transportation facilities or vessels, and severe weather events. If delivery and installation of our products is delayed or prevented by any such events, our revenues could be materially and adversely impacted.

***The government tax benefits that we currently receive require us to meet several conditions and will be terminated in the future, which will increase our costs.***

We and our wholly owned Israeli subsidiary, Kornit Digital Technologies Ltd., or Kornit Technologies, are entitled to various tax benefits under the Israeli Law for the Encouragement of Capital Investments, 1959, or the Investment Law. As a result of this status, we expect to have a reduced tax rate for our taxable income generated in Israel in 2020. However, if we do not meet the requirements for maintaining these benefits, the tax benefits may be reduced or cancelled and the relevant operations would be subject to Israeli corporate tax at the standard rate, which is currently set as 23%. In addition to being subject to the standard corporate tax rate, we might be required to refund any tax benefits that we have already received, as adjusted by the Israeli consumer price index, plus interest and monetary penalties thereon. Once these tax benefits are eliminated, the amount of taxes that we pay will increase, as all our operations would consequently be subject to corporate tax at the standard rate, which could adversely affect our results of operations. Additionally, prior to the expiration of our tax benefits, if we increase our operational activities outside of Israel, for example, via acquisitions, our increased activities may not be eligible for inclusion in Israeli tax benefit programs. See “ITEM 5. Operating and Financial Review and Prospects - Taxation and Israeli Government Programs Applicable to our Company — Law for the Encouragement of Capital Investments, 5719-1959.”

***We have received and may receive further Israeli government grants for certain research and development activities. The terms of those grants restrict our ability to transfer manufacturing operations or technology outside of Israel.***

Our research and development efforts have been financed in part through grants from the Israeli National Authority for Technological Innovation, or the Innovation Authority (previously known as the Israeli Office of the Chief Scientist). Prior to 2015, we received various grants from the Innovation Authority, all of which we repaid. In 2019, we received new commitments from the Innovation Authority for non-royalty bearing grants to reimburse us for up to 50% of our research and development expenses in connection with two projects, for an amount of NIS 1.59 million (approximately \$0.44 million), in the aggregate. To date, we have received from the Innovation Authority NIS 0.87 million (approximately \$245,000) of this new committed amount. We must comply with the requirements of the Encouragement of Research, Development and Technological Innovation in the Industry Law, 5744-1984 (formerly known as the Law for the Encouragement of Research and Development in Industry 5744-1984), and related regulations, or collectively, the Innovation Law, in connection with that new funding that we have begun to receive and any past funding that we had received from the Innovation Authority.

When a company develops know-how, technology or products and related services using grants provided by the Innovation Authority, the terms of these grants and the Innovation Law, among others, restrict the transfer outside of Israel of such Innovation Authority-supported know-how (including by a way of license for research and development purposes), the transfer inside Israel of such know-how and the transfer of manufacturing or manufacturing rights of such products, and technologies outside of Israel, without the prior approval of the Innovation Authority. We may not receive those approvals.

The restrictions set forth under the Innovation Law, to which we are subject (even after repaying grants we have received) include:

- *Transfer of know-how outside of Israel.* Transfer of the know-how that was developed with the funding of the Innovation Authority outside of Israel requires prior approval of the Innovation Authority, and, if approved will require, the payment of a redemption fee, which cannot exceed 600% of the grant amount plus interest. Upon payment of such fee, the know-how and the production rights for the products supported by such funding cease to be subject to the Innovation Law.
- *Local manufacturing obligation.* The terms of the grants under the Innovation Law require that the manufacturing of products resulting from the Innovation Authority funded programs are carried out in Israel, unless a prior written approval of the Innovation Authority is obtained. Such approval may be given in special circumstances and upon the fulfillment of certain conditions set forth in the Innovation Law, including payment of increased royalties. Such approval is not required for the transfer of less than 10% of the manufacturing capacity in the aggregate, and in such event, a notice to the Innovation Authority is required.
- *Certain reporting obligations.* A recipient of a grant or a benefit under the Innovation Law is required to notify the Innovation Authority of events enumerated in the Innovation Law.

These restrictions and requirements for payment may impair our ability to sell our technology assets outside of Israel or to outsource or transfer manufacturing activities with respect to any product or technology outside of Israel; however, they do not restrict the export of our products that incorporate know how funded by the Innovation Authority. Furthermore, the consideration available to our shareholders in a sale transaction involving the actual transfer outside of Israel of technology or know-how developed with funding by the Innovation Authority pursuant to a merger or similar transaction may be reduced by any amounts that we are required to pay to the Innovation Authority. Failure to comply with the requirements under the Innovation Law may subject us to mandatory repayment of grants received by us, together with interest and penalties, as well as expose us to criminal proceedings.

***Provisions of Israeli law and our articles may delay, prevent or otherwise impede a merger with, or an acquisition of, our company, even when the terms of such a transaction are favorable to us and our shareholders.***

Israeli corporate law regulates mergers, requires tender offers for acquisitions of shares above specified thresholds, requires special approvals for transactions involving directors, officers or significant shareholders and regulates other matters that may be relevant to such types of transactions. For example, a tender offer for all of a company's issued and outstanding shares can only be completed if the acquirer receives positive responses from the holders of at least 95% of the issued share capital, otherwise, the acquirer may not own more than 90% of a company's issued and outstanding share capital. Completion of the tender offer also requires approval of a majority in number of the offerees that do not have a personal interest in the tender offer, unless at least 98% of the company's outstanding shares are tendered. Furthermore, the shareholders, including those who indicated their acceptance of the tender offer (unless the acquirer stipulated in its tender offer that a shareholder that accepts the offer may not seek appraisal rights), may, at any time within six months following the completion of the tender offer, petition an Israeli court to alter the consideration for the acquisition. See "ITEM 10.B — Articles of Association — Acquisitions under Israeli Law."

Our articles provide that our directors (other than external directors) are elected on a staggered basis, such that a potential acquirer cannot readily replace our entire board of directors at a single annual general shareholder meeting.

Furthermore, Israeli tax considerations may make potential transactions unappealing to us or to our shareholders whose country of residence does not have a tax treaty with Israel exempting 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 involving an exchange of shares, 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 in which the sellers receive shares in the acquiring entity that are publicly traded on a stock exchange, the tax deferral is limited in time, and when such time expires, the tax becomes payable even if no disposition of such shares has occurred. In order to benefit from the tax deferral, a pre-ruling from the Israel Tax Authority might be required.

***It may be difficult to enforce a judgment of a U.S. court against us or our officers and directors, to assert U.S. securities laws claims in Israel or to serve process on our officers and directors.***

We are incorporated in Israel. The majority of our directors and executive officers reside outside of the United States, and most of our assets and most of the assets of these persons are located outside of the United States. Therefore, a judgment obtained against us, or any of these persons, including a judgment based on the civil liability provisions of the U.S. federal securities laws, may not be collectible in the United States and may not be enforced by an Israeli court. It also may be difficult for you to effect service of process on these persons in the United States or 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 reasoning that Israel is not the most appropriate forum in which 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. If U.S. law is found to be applicable, the content of applicable U.S. law must be proven as a fact by expert witnesses, which can be a time consuming and costly process. Certain matters of procedure will also be governed by Israeli law. There is little binding case law in Israel that addresses the matters described above. As a result of the difficulty associated with enforcing a judgment against us in Israel, you may not be able to collect any damages awarded by either a U.S. or foreign court. It may be difficult to enforce a judgment of a U.S. court against us, our officers and directors or the Israeli experts named in this prospectus supplement in Israel or the United States, to assert U.S. securities laws claims in Israel or to serve process on our officers and directors and these experts.

***Your rights and responsibilities as a shareholder are 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 are governed by our articles 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. In particular, a shareholder of an Israeli company has a duty to act in good faith and in a customary manner in exercising its rights and performing its obligations towards the company and other shareholders, and to refrain from abusing its power in the company, including, among other things, in voting at 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 that are not typically imposed on shareholders of U.S. corporations.

#### **ITEM 4. Information on the Company.**

##### **A. History and Development of the Company**

###### **Our History**

Our legal name is Kornit Digital Ltd. and we were incorporated under the laws of the State of Israel on January 16, 2002.

In April 2015, we completed our initial public offering, or IPO, pursuant to which we sold 8.165 million ordinary shares for aggregate gross proceeds (before underwriting discounts, commissions and expenses) of \$81.65 million. Our ordinary shares began trading on the NASDAQ Global Select Market, under the symbol "KRNT," on April 2, 2015. On January 31, 2017 and June 18, 2019, we completed follow-on offerings pursuant to which we sold 2.3 million and 5.0 million ordinary shares, respectively, for aggregate gross proceeds (before underwriting discounts, commissions and expenses) of \$38.0 million and \$137.3 million, respectively.

We are subject to the provisions of the Israeli Companies Law, 5759-1999. Our principal executive offices are located at 12 Ha'Amal Street, Rosh Ha'Ayin 4809246, Israel, and our telephone number is +972-3-908-5800. Our website address is [www.kornit.com](http://www.kornit.com) (the information contained therein or linked thereto shall not be considered incorporated by reference in this annual report). Our agent for service of process in the United States is Kornit Digital North America Inc., located at 480 South Dean Street Englewood, NJ 07631, and its telephone number is (262) 518-0200.

###### **Principal Capital Expenditures**

Capital expenditures in the years ended December 31, 2017, 2018 and 2019 were principally used for the purchase of property, plant and equipment (\$5.7 million, \$7.3 million and \$5.4 million in 2017, 2018 and 2019, respectively). Those amounts included \$1.8 million, in the aggregate invested over the course of those three years towards our now-complete, new headquarters in the United States. The amounts for 2018 and 2019 included \$6.1 million spent towards land and construction of our new 6,400 square meter manufacturing and ink storage facility in Kiryat Gat, Israel, for which construction began in January 2019. The construction of that new facility, including a production line being installed there, is expected to be completed approximately in August 2020. We may experience some delays in construction due to the effects of the coronavirus. We currently estimate that the total cost for land, construction of the facility, design and installation of the production line, will be approximately NIS 62 million (approximately \$17.5 million based on current exchange rates). We are financing the construction of that facility from cash on hand. On February 7, 2019, we consummated an asset purchase from Hirsch Solutions Inc., our former primary distributor in the United States and Canada, which accounted for 18% and 15% of our revenues in the years ended December 31, 2017 and 2018, respectively, to purchase remaining Kornit business assets related to the former distribution agreement between the companies. On the closing date, our company, through our wholly owned subsidiary Kornit Digital North America Inc., took ownership of relevant Kornit-related customer business assets as well as remaining inventory of systems and ink. Under the related acquisition agreement, the total consideration was \$4.7 million.

## **B. Business Overview**

### **Industry Overview**

#### **The General Textile Industry**

Textile is a flexible material formed using various processes, including weaving, knitting, crocheting or felting. This material may be used for manufacturing a broad range of conventional as well as advanced, finished goods, which may be broadly categorized (as related to the focus of our business) into fashion, apparel, home decoration and soft signage applications. According to a report published by Marketline in December 2018, the value of the global apparel retail market totaled \$1.4 trillion in 2017. The compound annual growth rate (CAGR) of the market was 4.4% between 2013 and 2017. The global apparel retail market is forecast to reach \$1.8 trillion in 2022, an increase of 29.7% since 2017, reflecting a CAGR of 5.3%. Rising disposable income, urbanization and population growth in emerging economies is expected to play an important role in improving the lifestyle of consumers, which is expected to drive the demand for textile products.

The global printed textile industry involves printing on fabric rolls, finished garments and unsewn pieces of cut fabric at various stages along the value chain in the production of goods for (as related to the focus of our business) fashion, apparel, home decoration and soft signage applications. According to The Future of Digital Textile Printing report published by Pira in 2019, approximately 95% of the global output of printed textile in 2018 was carried out via analogue methods of printing. According to the same Pira report, the global value of digital printed textile output was estimated to be approximately \$3.2 billion in 2018 and is expected to grow to approximately \$5.5 billion by 2023, reflecting a CAGR of 11.6% in the five-year period from 2018 to 2023. According to the same Pira report, digital textile output volume was estimated to be approximately 2.2 billion square meters in 2018 and is expected to reach 4.1 billion square meters in 2023, reflecting a CAGR of 13.4% for the five-year period from 2018 to 2023. Pira estimates that global digital printed textile output constituted less than 5% of the total global printed textile output in 2018.

#### **Mega Trends Affecting Our Industry**

##### *Industry 4.0*

Digitization of manufacturing is transforming the way products are being produced. This transformation process is also broadly referred to as Industry 4.0, representing the fourth industrial revolution occurring in manufacturing. This fourth industrial revolution is mainly about full digitization and the move away from analogue production methods, as well as cloud networks connectivity, and the introduction of autonomous systems fueled by data and machine learning. As a result of the support of machines that keep getting smarter as they get access to more data, the increased use of affordable robotics in production environments, and the data-connected logistics supply chain, our future factories are predicted to become more efficient, productive and less wasteful. The fashion and apparel industry segments in which we operate have been operating for decades in traditional, analogue and labor-intensive models, which will yield to what can also be referred to as Textile 4.0.

## *E-Commerce Boom*

E-commerce has grown globally at an unprecedented rate and is transforming retailing, across industries. Around the world, e-commerce is entirely changing the way people shop. In the major consumer markets of Europe, the U.S. and China, e-commerce is fast trending towards becoming the preferred shopping method for many people. Having access to global shopping opportunities allows consumers to save time, save money and have access to greater choices. E-commerce giants and technology vendors continue to invest in advanced technologies such as virtual reality, 3D modeling, augmented reality, and artificial intelligence in a continuous effort to improve the online shopping experience.

Goldman Sachs estimated in a research report dated September 24, 2019 that the global ecommerce market (excluding travel) was worth approximately US \$2.5 trillion in 2019, with a projected year-over-year CAGR of +20% until 2023. According to the same report, e-commerce was estimated to represent approximately 23.0%, 13.3%, and 10.6% of all retail sales in 2019 in China, the U.S. and Western Europe, respectively. M-commerce is about to burst into the mainstream thanks to a host of technological advances that are making it easier for people to shop on their phones. Business Insider predicted, in a 2019 report, m-commerce volume to rise at a CAGR of 24% from \$205.0 billion at 2019 to hit \$488.0 billion, or 44% of e-commerce, in 2024.

According to a global consumer survey performed by The Nilsson Company in 2018, fashion and apparel are, together, one of the top segments in ecommerce retail, predicted (according to a study published by Statista, the Statistics Portal) to increase at a compound annual rate of 12.2% from \$518.9 billion in 2018 to more than \$992 billion by 2023, as brands and retailers continue to adopt digital technologies that offer highly relevant and personalized customer experiences.

In the fashion and apparel industry, mobile purchases account for 65.4% of traffic to online fashion retailers and 57.1% of sales, much higher than the overall retail average.

## *Traditional Retail Meltdown*

For the last decade, various factors have resulted in the shrinking, bankruptcy/reorganization or total closing of numerous traditional North American retailers. Announcements from major retailers of plans to either discontinue or greatly scale back their retail presence continued in 2018 and into 2019. For example, Sears Holdings filed for bankruptcy protection in October 2018, J.C Penney has been closing stores, including in 2019, and Payless Shoesource has announced plans to close all of its stores in 2019.

According to real estate tracking done by Coresight Research in 2019 US retailers announced 9,302 store closings, a 59% jump from 2018 and the highest number since Coresight Research began tracking the data in 2012.

A research report published by Goldman Sachs on September 5, 2018, states that approximately 27% of announced store closures in 2018 were in the apparel and accessories categories.

According to a research held by UBS in April 2019, Online sales rise will force up to 75,000 stores in the US to close by 2026, including more than 20,000 clothing stores, or 17% of all clothing shops across the US.

The primary factors affecting the continued closing of traditional retail stores are the shift in consumer habits towards online shopping, a less than inspiring shopping experience at traditional brick-and-mortar stores, retailers' inability to sell trend-right apparel, and the ongoing pile-up of unsold inventory, which has put pressure on profits. Traditional retailers are struggling to find the right balance between supply and demand, so that they do not end up with too much inventory on their shelves or in stock rooms. When merchandise piles too high, traditional retailers are forced to use steep discounts to deplete inventory and make room for next season's goods. Further, eCommerce share gains continue to put pressure on traditional retail stores that are finding it difficult to compete with the level of selection, price, service, and convenience provided by many of the pure-play eCommerce companies or scaled omni-channel retailers.

## *Social Media Platforms*

Social platforms, historically categorized into media and networks (which categories have merged in recent years), have changed the industrial and business landscape, both for companies that have adopted them and for those that have not. Social media platforms have an extremely powerful impact on the ways in which individuals and organizations are communicating with each other, and a powerful impact on consumer trends, demand and brands perception. The number of social media users, according to Dataportal data from Jan 2020, was 3.8 billion, 49% of the total world population. In the US alone, according to Statista data from December 2019, more than 73% of the population use social medias. This mainstream effect has a dramatic impact on the ability of small and micro brands, some of which are initiated by individuals or organizations that are leveraging their social influence status to inspire individuals who, in turn, purchase those brands' products, to achieve ultra-fast recognition and exponential growth at the expense of traditional players, which need to develop agility in order to connect with consumers.

## *Sustainability*

The need to reduce or contain the ecological footprint of the textile industry is affecting the entire industrial system. The urgency for change has flowed through from political and environmental activists and scientists, into mainstream government regulators and business leadership across the globe. A sustainable industrial system requires formulation of new strategies and thinking, integrated into business and operational frameworks around sustainable manufacturing, supply chain design, sustainability performance measurement and ongoing management. Industry is now considered not only part of the problem but also part of the solution. From a practical point of view, as it comes to sustainability strategies, companies are focused on technology improvements enabling cleaner production, pollution prevention, and other sustainable manufacturing practices.

Among the biggest environmental impacts of the textile industry, two noticeable impacts are water pollution and waste of both water and garments.

In some of the countries in which garments are produced, untreated toxic wastewaters from textile factories are dumped directly into the rivers. These are extremely harmful for the aquatic life and the health of millions of people living by those riverbanks. The contamination also reaches the sea and eventually spreads around the globe. 200,000 tons of dyes are lost to effluents every year according to an article published by Sustain Your Style. The textile industry is also the second largest consumer of water. According to Sustain Your Style data, it can take up to 200 tons of freshwater per ton of dyed fabric. Consumer behavior and frequently changing fashion trends are making it difficult for fashion brands to predict the volumes of items that will be purchased. Combined with the traditional production methods designed to produce mass volumes of items, result with very large quantities of inventory leftovers. Redundant inventory and lack of adequate recycling infrastructure cause textile waste to rise and become an industry wide problem. According to Common Objective, a global tech solution for sustainable fashion business, 39 million tons of post-consumer textile waste that is generated worldwide each year.

Considering the size of the textile industry— one of the largest industries in the world—sustainability of the industry is important, but, on top of that, companies can furthermore make a huge difference environmentally, economically and socially. The textile industry has many reasons to place an emphasis on sustainability, including reduced costs, protection of the environment and sustained goodwill from its customers for eco-friendly practices. As one of the world's most water and air polluting industries, sustainability issues in the textile/apparel industry continue to receive great attention.

## **Mega Consumer Trends Affecting our Industry**

### *Personal Expression*

We believe that modern consumers, impacted by the mega industry trends, are increasingly seeking the ability to express their identities and beliefs through the everyday choices that they make. If in the past it was mainly about the choice of brand affiliation that was considered "appropriate" for their self-image, consumers are now seeking new and creative ways to express their identities through unique, customized or personalized impressions, styles, and messages – whether affiliated with their favorite brands, through the creation of their own "private brands" or via affiliation with unique "no brand" designed goods. According to Facebook's data, 72% of US fashion shoppers say at least one form of personalization increases their likelihood of making a purchase.

Younger consumers are more and more concerned with social and environmental causes, as many increasingly back their beliefs with their tightly coupled expression and consumption habits, favoring goods and brands that are aligned with their personal, social and environmental values and avoiding those that do not.



## *Instant Gratification*

Modern consumers seek solutions faster and easier than ever before, catalyzed by the explosive growth of technology and mobile applications usage. This shift has given way to an on-demand economy where immediate gratification has become the standard across industries, in the form of instant arrival rides in the transportation industry, unlimited on-demand video streaming, minimal wait time for food deliveries, or in the case of retail, instant visibility and availability of product and inventory, and ultra-fast delivery. Consumers expect to be serviced almost instantaneously and are rewarding the brands that understand and meet their instant gratification needs. According to a 2018 report published by Internet Retailer, 66.8% of the top 1,000 retailers in North America offer free shipping and 55.6% offer the option to pay for next-day delivery. According to a US consumer survey conducted in October 2019 among 2,500 consumers, a faster estimated delivery date in the online shopping cart has a big impact on purchase decisions, with 28.6% of shoppers saying they'd be more likely to buy if the order would arrive within a week. Already, 38% of online shoppers expect retailers to offer free two-day delivery and 24% expect free same-day delivery, according to the National Retail Federation.

A recent data published by Statista in September 2019 estimated that the number of Amazon customers in the United States willing to pay more to receive products faster, through its Amazon Prime service, exceeded 105 million as of June 2019.

This change in consumer behavior is causing retailers to evaluate ways to alter their approach towards their entire supply chain, with high focus on improved inventory management and an efficient and scalable fulfillment infrastructure. In addition to retooling their internal fulfillment capabilities, many retail brands have begun to leverage the capacity of third-party online stores to meet customer demands for delivery speed and product availability.

## *Social Media Influence*

With the rise of mega social platforms like YouTube and Instagram, and fueled by the explosive mobile device accessibility, influencer marketing continues making waves on social media and narrowing the bridge between discovery, inspiration and purchase. According to a Yotpo 2019 US fashion eCommerce report, which surveyed 2,000 online consumers, most of today's consumers are likely to find inspiration from external sources rather than directly from a brand or retailer, more than half (55.2%) of Gen Z (14-24 years old) respondents found inspiration for the most recent online fashion purchase on social media while 50.6% of Millennials (25-34 years old) reported the same. According to another recent study conducted (the Robin Report by Catherine Schetting Salfino), 55% of millennials say that they are less loyal to apparel brands now than they were a few years ago.

According to Morning Consult's latest study, "The Influencer Report" published in 2019, surveying more than 2,000 13-38-year-olds in the US, when asked what traits they consider when deciding which influencers to follow, the vast majority (88%) of respondents are looking for influencers who are authentic and genuinely care about their interests. That can explain why sustainable bloggers and green living influencers are becoming an increasingly popular subgroup. Many fashion influencers across the globe are using their platforms to promote ethical fashion brands, spread eco-conscious messages and encourage users to create a positive impact on the planet.

## *"Be Greener"*

Environmental degradation has been hitting headlines in recent years. News articles and documentaries around rising seas, declining air quality and shrinking animal populations have become more commonplace. Sales of reusable coffee cups and water bottles took off, plastic straws were banned in many bars and restaurants, and mega consumer brands like Evian and Coca-Cola have committed to manufacture from recycled materials. The impulse to "be greener" is clearly gaining momentum. According to a recent bespoke study carried out in the UK and U.S. by Globalwebindex, half of the digital consumers surveyed said environmental concerns impact their purchasing decisions. Millennials are the ones driving the sustainable movement with their lifestyle and behavioral changes. According to Deloitte 2019 millennials survey, millennials and Gen Zs they are inclined to spend their income on products and services from brands that speak about issues that resonate with them most, such as protecting the environment. Also, when asked on the essence of businesses 27% mentioned improving and protecting the environment, versus 12% in 2018. Social impact and ethics are the most common reasons why millennials change their relationships with businesses. Often coined as the "green generation", many brands are starting to see the appeal of, and the opportunity to connect with their consumers through, these changes, rather than viewing the changes as a regulatory burden. On Stanford Social Innovation Review paper from 2018, more than 90% of CEOs surveyed state that sustainability is important to their company's success, and companies develop sustainability strategies, market sustainable products and services, create positions such as chief sustainability officer, and publish sustainability reports for consumers, investors, activists, and the public at large.

According to the Globalwebindex study, 60% of Millennials (aged 22-35) said that they would be more likely than any other generation to pay extra for ecofriendly or sustainable products. With plastic waste currently at the center stage of consumers' attention, it is likely just a matter of time before consumers better research the manufacturing processes and decoration techniques for their clothes, shoes and bags before buying them, which will increase pressure on brands to connect with the consumer by adopting eco-friendly printing and decoration methods that minimize water pollution, toxic chemicals use and other textile waste.

Governments and brands are collaborating and joining efforts in forming industry regulation to support the eco-friendly global trends. In August 2019, major fashion brands announced a Fashion Pact at the G7 Summit in France, outlining commitments focused on reducing the fashion industry's contribution to climate change. This is the first time major industry players have set a level of ambition consistent with the UN Paris Agreement goal of keeping global temperature rise below 1.5 degrees Celsius. More than 30 companies signed the pact, including Kering, Gap, Nike, Adidas, H&M, and Chanel. The signatories committed to implementing Science Based Targets to achieve zero greenhouse gas emissions by 2050, including sustainable sourcing of raw materials and 100 percent use of renewable energy in their supply chains by 2030.

### **Implications on Fashion and Apparel Transformation, as it Relates to our Business**

Regardless of size and specific segment, industry players in fashion and apparel, whether traditional brands, digital start-ups, new generation e-tailers, or different forms of customized designers, now need to be nimble, think digital-first and achieve ever-faster speed to market. They need to connect to the end consumer for self-expression, take an active stance on social issues, satisfy consumer demands for ultra-transparency and sustainability, and ensure that they invest in an omni-channel strategy, thereby enhancing their manufacturing productivity, supply chain resilience and their ability to respond to the immediate gratification needs of the evolving consumer. Traditional brands are beginning to self-disrupt their own business models, image and offering in response to the new breed of emerging high growth online-first brands that are accelerating, thanks to changing consumer preferences, decreasing brand loyalty, growing appetite for self-expression, and instant gratification. We expect more traditional brands to follow suit on this omni-channel path of self-disruption, which will have a significant impact on their ability to connect with, and meet the needs of, consumers. In a survey published in 2019 by a leading management consulting firm, top industry executives were asked to describe the words that best describe the industry, with the top three words being: "Changing", "Digital", and "Fast".

We believe that the following objectives capture some of the key areas of focus, as they relate to our business, as traditional and new generation online-first fashion and apparel players continue to adapt their value propositions and operating models to the rapidly changing industry environment and consumer preferences. We believe that these industry areas of focus will continue to fuel the growing need and demand for our innovative digital textile printing solutions:

- o *Connect with consumers need for self-expression via unique graphical and text designs*
- o *Capture the moment, by shortening the time from inspiration and design to market*
- o *Offer "unlimited" variety and availability in their virtual and traditional storefronts*
- o *Connect with consumers via personalization and customization offerings*
- o *Respond to the sustainability demands of consumers and regulators*
- o *Respond to consumers' immediate gratification needs*

## Impact on the Industry Need and Demand for Operational Transformation

New generation start-up apparel and fashion businesses born and grown in digital and online retail and production, some of which are existing customers of our solutions, have already implemented successful full or partial on-demand production models as they establish their greenfield environments. We expect these businesses to continue scaling and perfecting their existing digital business and operational models, investing in front-end technologies to continue improving the online customer experience, and operationally scaling their partial or full on-demand production capabilities.

We believe that in order to address the focus areas identified above, traditional industry and brands players will continue to examine and transform their predominantly mass production and inefficient analogue operating production models and supply chains, especially as it comes to managing their finished goods inventory levels, which remains a huge financial risk. Traditional companies have continued to invest “upstream the chain” in better predicting buying trends, consumer preferences, and demand via sophisticated big-data analytics, as they plan their collections and inventory levels; however, consumer demand is more volatile and difficult to predict than ever. The challenge with prediction-only production planning is growing, and industry executives, as evidenced in a 2018 study published by a leading management consulting firm, are increasingly shifting their focus “downstream” to the manufacturing environment, seeking a shift to a more agile, partial or full on-demand production model. We believe that industry players will continue to seek ways to adopt major changes to their business and operational models, and supply chains, and - specifically as it relates to our business - in how they design, produce, and decorate garments and apparel.

The below lists a few key production gaps, that prevent a successful transition to partial or full on-demand retailing models, that traditional fashion and apparel manufacturers are looking to close as they plan their future marketing and production strategies:

*Mass Customization and Personalization:* The capability to manufacture a relatively high volume of product options, carrying unique designs, without tradeoffs in cost, delivery and quality. In a simplified way, the ability to cater demand to mass produce customizable products with unlimited designs, on a one-by-one basis, in a cost-efficient manner.

*“Shorter Runs”:* Mass production of smaller batches with (most likely) higher number of order amounts, at a similar cost per garment structure achieved by producing large batches. This flexibility reduces finished goods inventory risks by identifying buying patterns and responding to demand in a more accurate manner by replenishing stock in ultra-short cycles. The pressure for smaller batch sizes and on-demand replenishment is driven partly by profitability, but also by a desire for sustainability.

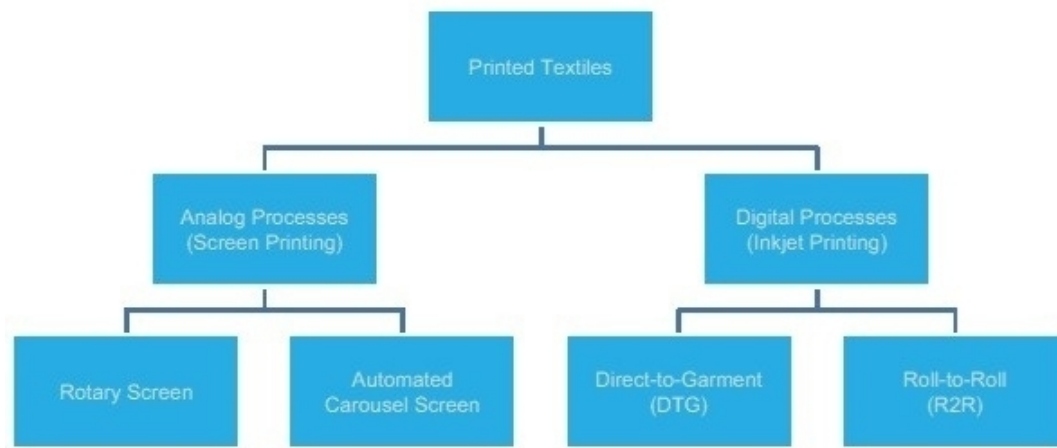
*Proximity Production, Proximity Decoration and Nearshoring:* Two decades ago, U.S. and European mass-market apparel brands and retailers shifted production to Asia to gain a cost advantage. Factors are changing this calculus by making it critical for companies to bring new styles to market more quickly and switch out lines mid-season. According to a recent 2018 survey published by a leading management consulting firm, 54% of purchasing managers surveyed in the US and the EU said that proximity to customers is becoming more important. In another study published by a leading management consulting firm, 60% of apparel procurement executives said that they expect that over 20% of their sourcing volume will be from nearshore by 2025. In addition, rising wages for factory workers across Asia mean that production in Asia is less cost-efficient than it used to be. The real prize is shorter lead times. By reducing time-to-market, companies can produce, partially produce, finish, print or decorate more closely in-line with demand, reducing overstocks and increasing full-price sell-through.

*Microfactories, Speedfactories, Reshoring:* Smaller and nimble manufacturing sites, usually planned out in an urban cell model, that can efficiently source or produce the raw materials as well as produce and ship finished apparel goods end-to-end. Success of such factories is heavily reliant on a fully digital, real estate efficient, either semi or fully automated manufacturing workflow capability that offsets the inefficient cost structure associated with large analogue equipment, rising costs of real estate and labor costs, predominantly in developed countries.

We believe that the technology and solutions that we bring to the market in the form of digital textile printing solutions, as listed in our products and technology sections, are key enablers for these business and operating models. We expect increasing demand and adoption of our solutions by start-ups and new-generation digital apparel brands (some of which are our customers), as well as from traditional apparel brands that need to adapt their operational models in order to remain connected with their customers.

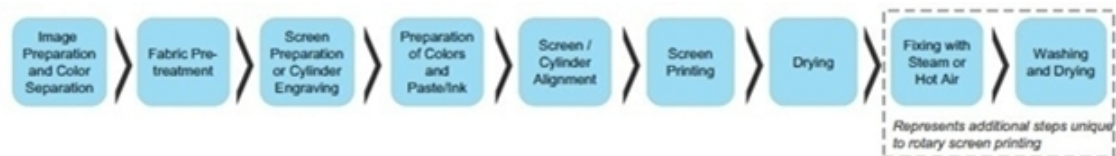
## Overview of Textile Printing Processes

The graphic and accompanying description below present various textile printing processes:



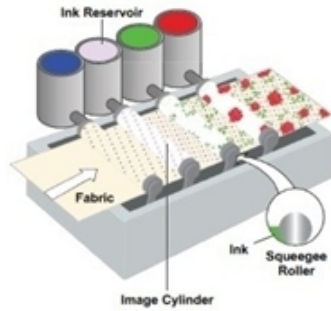
Screen printing is the most commonly used printing process for textiles. The two primary methods of screen printing are rotary screen printing and automated carousel screen printing.

The following chart summarizes the key steps involved in the analog printing process:



**Rotary Screen Printing** Rotary screen printing is commonly used to print on outerwear, underwear, sportswear, upholstery and linens. It involves multiple, time-consuming process steps. Rolls of fabric pass through rotating cylinders that are engraved with the image or design to be printed. Each cylinder then applies ink of a different color, which forms part of the image or design. This process is generally used to print a pattern on a fabric roll that is then cut and sewn into finished products. Rotary screen engraving is a costly process that takes between four and five hours per cylinder and is frequently done offsite. Preparation of colors typically takes an additional 30 minutes and the setup of the printer itself typically takes nearly 1.5 hours. The process can require up to seven people. The maximum size of an image or design is limited based on the circumference of the cylinders, which is typically no more than 60 centimeters.

The following diagram depicts the analog rotary screen printing process:



**Automated Carousel Screen Printing** Automated carousel screen printing is commonly used to print on finished garments and cut pieces. In automated carousel screen printing, a blade or squeegee squeezes printing paste or ink through mesh stencils onto fabric. The process typically employs a series of printing stations arranged in a carousel. At each station, one color of ink is pressed through specially prepared mesh stencils, or screens, on to the textile surface. Between color stations, there are also flash drying stations and cool-down stations to ensure that deposited ink does not inadvertently mix with the next color to be applied. Preparation of the mesh stencils is a specialized process and its complexity is a function of the number of discrete color separations and screens that need to be prepared for a given design. The process of color separations, film production, and screen exposure and alignment typically takes approximately 1.5 hours for six colors. Once the screens and color separations are complete, preparation of the carousel typically takes between 40 and 60 minutes. After being manually loaded, the textile moves along the carousel from station to station where each color is applied separately. Unlike rotary screen printing, carousel screen printing does not require fixing the image or design with steam or hot air and, in most cases, does not require washing and drying the textile afterward



### Digital Printing Processes

Digital textile printing uses specially engineered inkjet heads, rather than screens and cylinders or mesh stencils, to print images and designs directly onto fabrics. As such, the use of digital technology eliminates multiple complicated, costly and time-consuming steps, such as screen preparation or cylinder engraving, preparation of pastes or inks, and screen or cylinder alignment.

Most fabrics need to be pre-treated before printing by submerging them in a solution that is designed specifically for the type of fabric and ink being used. This coating process is essential for achieving the desired chemical reaction between the ink and the fabric. The fabric is dried following pre-treatment. After the ink drops are applied, the printed fabric undergoes a process of fixation that is also specific to the type of fabric and ink being used. Digital textile printing generally uses either dye-based or pigment-based ink.

The digital textile printing market principally includes two types of printing processes:

**Direct-to-Garment (DTG)** In DTG printing, an inkjet printer prints directly on the textile. DTG printing allows for printing images and designs onto finished textiles, such as t-shirts that have already been sewn and dyed. The following chart summarizes the key steps involved in the DTG printing process:



**Direct-to-Fabric (DTF)** In DTF printing, rolls of fabric pass in-line through wide-format inkjet printers that are utilized to directly print images and designs onto rolling fabric. The following chart summarizes the key steps involved in the DTF printing process:



Recent technological developments in digital printing have supported the adoption of digital printing by the global printed textile industry, including by custom decorators, online businesses, brand owners and contract printers. As a result of consumer and macro trends impacting these businesses, we believe that the global printed textile industry offers a significant and rapidly growing market for digital printing solutions.

### How Digital Textile Printing Addresses the Industry Needs

The following characteristics of digital textile printing enable new business and operating models, help industry players as they address their manufacturing gaps, and, as these characteristics relate to our business, are driving the shift from analog to digital textile printing:

**Manufacturing flexibility:** Digital textile printing allows a full image or design to be printed on a garment or cut fabric in one manufacturing step, compared to multiple steps in an analog printing process. Digital textile printing gives manufacturers the ability to print short runs, with personalization capabilities, in a cost-effective manner with a minimum order quantity of one unit. Unlike screen printing, digital printing cost remains the same when printing a single unit or multiple units. This allows printers to execute orders one by one without needing to accumulate large demand for a design before printing.

**Design flexibility:** Digital textile printing enables a larger variety of artwork to be imprinted, without limitations on number of colors per design and high-resolution imaging.

**Integration with advanced workflow environments:** Digital textile printing is better suited for transition to full digitization of the production floor environment, including connectivity to cloud networking elements and productivity analytics software solutions.

**Reduced time between design and production:** The digital textile printing process allows for samples to be quickly produced, evaluated, and modified, which permits brand owners to increase the frequency and variety of replenishment cycles in response to fashion trends.

**Decreased risk of excess inventory:** The costly and time-consuming upfront setup required in analog production methods is avoided when using digital printing technologies. Therefore, digital printing enables the cost-efficient production of a smaller quantity of garments, which mitigates excess inventory risk and improves profitability. Stocking blank garments or fabric and decorating them only when demand is identified significantly reduces the amount of inventory at risk. This reduces working capital requirements, thereby enabling the emergence of numerous online businesses which are focused on the sale of printed textiles.

**Reduced labor and physical space requirements:** Digital textile printing requires significantly less labor to print an equivalent output due to the significant reduction in process steps. The unique Kornit proprietary process of digital textile printing further reduces the need for labor and introduces additional floor space savings for manufacturing equipment by eliminating certain process steps and by consolidating multiple process steps into a single printing system. The combination of labor savings and smaller shop floor footprint, coupled with lower energy consumption and a lack of environmental impact, enables manufacturers to move production closer to consumers in a cost-effective manner. Textile business is very seasonal and the need to retain employees bares a heavy financial burden. The move to digital printing significantly reduces the need for manpower and allows for a more flexible cost structure.

*Sustainability:* Digital textile printing significantly reduces industrial water consumption and discharge of toxic chemicals by eliminating the need to wash screens for color changes and repeated use. We believe that this results in reduced environmental impact and, in turn, enables manufacturers to comply with regulatory and brand guidelines at a location of their choosing, in many cases in populated areas which are not industrial in nature.

## **Our Business**

We develop, design and market innovative digital printing solutions for the global printed textile industry, with a major focus on the fashion, apparel and home décor segments of the industry.

Our vision is to create a better world where everybody can bond, design and express their identities, one impression at a time.

Our mission is to revolutionize the fast-changing industry by facilitating and expediting the transition from analog processes that have not evolved for decades and are not fit for the rapidly changing business models and self-disruption needs of the industry, to digital methods of garment, apparel and home decor finished goods production and decoration that address the contemporary supply, demand, social and environmental needs of the industry in which we operate.

We focus on the rapidly growing high throughput, direct-to-garment, or DTG, and Direct-to-Fabric, or DTF, segments of the printed and decorated textile industry. Our solutions include our proprietary digital printing systems, ink and other consumables, associated software and value-added services that allow for quality and cost-effective large-scale printing of short runs of complex images and designs directly on finished garments and fabrics. Our solutions address the growing production gaps reflected in the need to shift to shorter runs, proximity production, proximity decoration, partial or full on-demand production, and microfactory models by enabling our customers to print and decorate high quality products in a time efficient, cost-effective and environmentally-friendly manner. This allows textile manufacturers to transition from their traditional business and operating models of supply based on demand predictions, to partial or full on-demand or made-to-order models, by which decoration of fabric and production of finished goods only takes place once a customer order has been issued.

Our solutions are differentiated from other digital methods of production because they eliminate the need to pre-treat fabrics prior to printing, thereby offering our customers the ability to digitally print high quality images and designs on a variety of fabrics in a streamlined and environmentally-friendly manner. When compared to analog methods of production, our solutions also significantly reduce production lead times and enable customers to more efficiently and cost-effectively produce smaller quantities of individually printed designs, thereby mitigating the risk of excess inventory, which is a significant challenge for the industry, as further described in our “Industry Overview” section above.

The success of evolving omni-channel apparel retail is dependent heavily on the ability to show a large variety of designs. Since it is more and more difficult to predict consumer preferences and demand, it is increasingly difficult to stock every possible design. Having digital capacity available allows printers, brands and retailers to offer unlimited design with minimal to no inventory risk. We believe we are well positioned to continue taking advantage of this trend.

Our DTG solutions utilize our patented wet-on-wet printing methodology that eliminates the common practice of separately coating and drying textiles prior to printing. This methodology also enables printing on a wide range of untreated natural, synthetic and man-made fabrics, including cotton, wool, polyester, lycra and denim. With throughputs ranging from 32 to 235 garments per hour, our entry level, industrial and mass production DTG solutions are suited to the needs of a variety of customers, from smaller industrial operators with limited budgets to mass producers with complex manufacturing requirements. Our patented NeoPigment ink and other consumables have been specially formulated to be compatible with our systems and overcome the quality-related challenges that pigment-based inks have traditionally faced when used in digital printing. Our software solutions simplify order to production workflows in the printing process, by offering a complete solution from web and traditional order intake through graphic job preparation and execution. We also offer customers maintenance and support services, as well as value-added services and application consulting, aimed at optimizing the number of impressions printed by our systems.

We have also recently (in April 2019) supplemented our original DTG printing technology with our Kornit NeoPoly Technology, which is our industry's first digital, industrial process for high-quality printing on polyester, thereby opens the large sport and athleisure market to our digital printing solutions. The new Kornit NeoPoly Technology addresses existing challenges with a new process and ink set implemented in the Kornit NeoPigment<sup>T</sup> process. Our new process handles polyester applications without having to compromise on design, run size, substrate or labor. The breakthrough technological innovation has been achieved by an innovative ink set and a physical and chemical process specifically developed for low-temperature curing, and polyester-enhancing functionalities developed to maintain fabric characteristics and provide superior fastness. This unique process overcomes dye migration on polyester. The inks are Eco-Passport certified, and do not contain PVCs or any other toxic ingredients. The first system equipped with our Kornit NeoPoly Technology is the Kornit Avalanche Poly Pro, a member of our industrial platform, which became commercially available in April 2019.

Building on the expertise and capabilities that we have accumulated in developing and offering differentiated solutions for the industrial DTG market, we also market an industrial digital printing solution, the Kornit Presto, which targets the on-demand DTF market. While the DTG market generally involves printing on finished garments, the DTF market is focused on printing on fabrics that are subsequently converted into finished garments, home or office décor, and other items. The Kornit Presto (like our predecessor DTF product, the Kornit Allegro) utilizes our proprietary wet-on-wet printing methodology and houses an integrated curing system. It offers the sole (following its predecessor, the Allegro) single-step, eco-friendly, stand-alone industrial DTF digital textile printing solution available on the market. We primarily market the Kornit Presto to businesses seeking horizontal or vertical expansions into fabric decoration, such as innovative web-based businesses operating on-demand business models that require a high degree of variety and limited quantity orders, as well as to fabric converters, which source large quantities of fabric and convert untreated fabrics into finished materials to be sold to garment and home décor manufacturers, and to sustainable fashion producers seeking a competitive edge in today's changing supply chains. We believe that with the Presto we are well positioned to take advantage of the growing trend towards customized home décor and on-demand fabric printing, with increased focus on sustainable production. We began selling the Presto commercially in the second quarter of 2019 (after having introduced our initial DTF digital textile printing solution, the Kornit Allegro, four years earlier, in the second quarter of 2015).

We were founded in 2002 in Israel, shipped our first system in 2005 and, as of December 31, 2019, had more than 1,000 customers globally. As of December 31, 2019, we had 547 employees located across four regions: Israel, America, Europe and Asia Pacific. In the year ended December 31, 2019, we generated revenues of \$179.9 million, representing an increase of 26.3% over the prior fiscal year. In the year ended December 31, 2019, we generated 61% of our revenues from the Americas region, 27% from the Europe, Middle East and Asia ("EMEA") region, and 12% from the Asia Pacific region.

### **Our Competitive Strengths**

The following are our key competitive strengths:

#### ***Leading player in the fast-growing industrial digital DTG market.***

We are the leading player in the fast-growing, industrial and mass production, digital DTG market based on our sales, and have more than 1,000 customers globally. We have been revolutionizing the industry since 2005 and have developed a robust solutions portfolio and scaled our go-to-market infrastructure over the course of this period. Other than our unique intellectual property and technology, and our robust go-to-market infrastructure, our application experts have the best industry knowledge. Consequently, we believe we can greatly support and advise our existing and future customers with the best-known methods to optimize their production environments. Our own internal estimates, based on our understanding of the industry, combined with data from available market reports on the estimated production quantities of garments, are that approximately 15 billion impressions are printed direct-to-garment annually in the global apparel industry, including the decoration of, among other forms of garments, T-shirts, jerseys, and trousers. We estimate the number of annual impressions to grow to approximately 23 billion on an annualized run-rate basis, by the end of 2023. We estimate that only approximately 1 to 2% of these impressions are printed digitally today. We therefore believe that our leadership position, combined with continued technology innovation, and operational improvements, will allow us to grow our business in the coming years.



**Well-positioned to disrupt the DTF market with our unique single-step manufacturing solution.** We believe we are well positioned to capitalize on the growing trend toward on-demand home décor with our unique DTF solution. Our Kornit Presto system (like our former Kornit Allegro), combined with our proprietary process, was designed to offer a single-step manufacturing solution which is especially suited for businesses which do not have a vertically-integrated textile mill. Unlike other digital textile printers, the Kornit Presto does not require multiple pre-processing and post-processing steps that are customarily used in vertically integrated textile mills and that utilize high levels of energy and space and have a negative environmental impact. Given its architecture, it is perfectly suited for short and micro runs. The Kornit Presto is compact in size, requires a single person to operate, and fits very well in an urban and non-industrial setting. The Kornit Presto is unique in its ability to print on multiple fabric types without the need for different inks and consumables, while generally other systems and technologies for DTF digital printing require dedication of discrete printers to specific fabric types.

**Disruptive technology that enables our customers to adopt new, or improve existing, business models.** Our digital printing solutions allow our customers to develop new, or improve existing, business and operational models by enabling them to produce short to medium runs of high-quality customized garments efficiently. This facilitates online business models that require an on-demand and made-to-order basis and allows brand owners to produce and decorate garments in-house. With a constantly growing worldwide customer base of more than 1,000 customers, we are witnessing the creation of a global fulfillment network of printing specialists that are leveraged by large numbers of websites that offer customizable garment printing services. As demand from these customers continues to grow, so does utilization of our systems, which in turn print more impressions, consume more ink and once used to their full capacity, require purchasing of more systems.

**Environmentally-friendly printing processes.** A significant portion of global industrial water pollution comes from textile dyeing, printing and finishing. We believe that environmental factors are beginning to assume a significant role in the decision-making process of our existing and potential customers, with an increasing number of countries adopting restrictions on the use of technologies like screen printing that generate significant wastewater. Our printing process eliminates the need for separate pre-treatment, as well as steaming, washing or rinsing of textiles during the printing process, which leads to a significant reduction in water consumption compared to conventional printing methods. In addition, our inks are biodegradable and certified by leading industry groups as being safe for system operators, consumers and the environment. Finally, our systems offer energy saving processes that result in the use of significantly less power compared to traditional printing processes. We believe that these environmental benefits will further drive market penetration of our solutions and enable manufacturers to move production closer to the consumer in a cost-effective manner.

**Attractive business model.** We currently offer a broad portfolio of differentiated digital printing solutions for the digital industrial and mass production DTG market. Our existing and growing installed base of systems results in recurring sales of ink and other consumables, which are specially formulated to enable our systems to operate at the highest throughput level. These recurring sales are generated at attractive gross margins. Recurring sales of ink and other consumables have historically offered us a degree of visibility into a significant component of our results of operations. We believe that our recurring sales model also enables us to foster close customer relationships, as it facilitates ongoing engagement with our customers, which positions us to provide tailored solutions and expands our ability to provide value-added services to our customers. Our customer relationships are further strengthened by a trend towards ownership of multiple systems, as the number of customers with at least two systems has grown from 155 as of December 31, 2014, to 271 as of December 31, 2018, and to 277 as of December 2019. The number of customers with at least 10 systems has grown from nine as of December 31, 2014, to 17 as of December 31, 2019. We anticipate revenue from services to increase over time as we reach upgrade cycles across our growing installed base and continue to expand our service contracts business model. Additionally, sales of ink and other consumables are generally higher in high throughput systems such as the Vulcan Plus, Atlas, Avalanche and Presto systems. Large customers typically run at high utilization rates and can consume up to five times as much ink per year compared to other customers. By developing and implementing proprietary end-to-end solutions for our customers, we believe our business model is differentiated from more commoditized solutions serving the same end markets. We have proven our ability to grow revenues while maintaining an attractive margin profile and we intend to continue investing in our business to drive profitable growth in the future.

**Product upgrade strategy.** In 2016 we started implementing a long-term strategy for supporting our installed base with upgrade paths to newer, more advanced, systems. The goal of this strategy is to allow our customers to extend the return on their investment in Kornit systems, and in return, we enjoy growth in system utilization and on-going capital investments in our equipment through the depreciation cycle.

**Product refurbishment strategy.** In 2019, and going into 2020, we introduced a new line of factory refurbished systems, based on the Avalanche and Storm platforms. This new line of business will enable us to expand our product offering with the latest technology capabilities at different price points, as well as provide us with maximal control over any after-market activity. This initiative makes it easier for our existing customer base to adopt our latest technology as they trade-in their existing relevant installed base, which in turn will find its way to new customers who are more capital expenditure sensitive. As a part of our sustainability strategy, this new line of business enables us to re-use systems, sub-modules and other parts to their fullest potential and life expectancy, thus reducing waste and other environmental impacts of unnecessary production of new systems.

**Robust intellectual property portfolio driven by an innovation-based culture.** Our intellectual property portfolio reflects over a decade of significant investments in digital textile printing, which we believe creates significant barriers to entry. We have developed a strong base of technology know-how, backed by our portfolio of intellectual property, which includes 30 issued patents and 21 provisional or pending US applications, 33 pending non-US patent applications and 11 pending PCT applications that cover wet-on-wet printing methodology, ink formulations, printing processes and related methods and systems. Our team of over 128 researchers and developers, including chemists, electrical engineers, system engineers, software engineers and mechanical engineers, ensures that our systems remain technologically advanced, and are well engineered, user-friendly and highly reliable.

**Extensive product portfolio and strong new product pipeline.** With throughputs ranging from 32 to 235 garments per hour, our DTG systems are suited for smaller industrial operators with limited budgets, as well as mass producers with complex needs. Since 2015, we have commercialized several new solutions in the DTG market: the Vulcan and (recently, in January 2020) the Vulcan Plus, cost-effective digital substitutions for carousel screen printing and high-capacity, industrial DTG systems; the HD family of solutions (including, in January 2020, the Storm HD6 Lite refurbished system); the Atlas, our high throughput mass production digital DTG system; and, beginning in April 2019, our specialty DTG solutions—the Avalanche Poly Pro and Avalanche DC Pro, which enable digital printing on a variety of polyester products and other fabric types, including cotton, cotton-polyester blends, silk, leather, denim, linen and wool. Our future roadmap remains focused on the continued development of proprietary processes, continuously expanding the breadth of applications upon which we can print while pushing the envelope of cost-efficient manufacturing further as a means to expand our servable addressable markets.

**At the heart of a true industrial revolution, or Textile 4.0.** Every digital printing revolution starts with printing small quantities of particular designs where the advantages of digital technology are most pronounced. The ability to expand the addressable market of digital printing relies heavily on constant reduction of cost per printed unit (CPP). Given our deep technological foundations, we have been able to constantly reduce CPP by increasing system output as well as increasing the efficiency of our inks, allowing customers to consume less ink while achieving excellent results. Given this progression, we are now able to offer a cost-effective alternative to screen printing for runs of up to 500 garments, making our products a viable printing solution for large scale retailers who now seek to move to quick inventory replenishment and are constantly moving to shorter runs of production.

**Strong management team.** Our Chief Executive Officer, Ronen Samuel, and our Chief Financial Officer, Guy Avidan, bring extensive experience of managing publicly traded companies and/or in management roles in the printing industry. Our management team's industry expertise and extensive experience in running global companies will enable us to execute our growth strategy. Our management infrastructure also includes executives who are experienced in the management of people, large scale business, innovation and product development in larger public organizations including HP, Applied Materials, NICE, Amdocs and Mitsubishi Fuso Trucks of America. Over the past five years, we have also invested heavily in human resources to support our growth. Since 2013, our workforce has almost tripled from 190 to 547 as of December 31, 2019. Additionally, more than 208 of our employees are in the field, enabling us to provide more localized service to our customers.

## **Our Strategy and Catalysts for Growth**

The following are the key elements of our growth strategy and catalysts that will drive our business expansion:

### ***Remove market and technology barriers to drive continued organic growth.***

We are focused on ongoing investments in our research and development, product management, and applications development areas to continue driving innovation within the industry, thereby allowing our customers and prospects to grow their businesses by enabling them to expand their product offering with additional applications, designs, and fabric types. We focus on constantly removing barriers as they relate to quality, hand feel, and cost (as evidenced in the release of our latest HD family of solutions). We will continue to drive the productivity of our technology to allow existing and future customers to cost effectively obtain new jobs and transfer existing recurring jobs and impressions from analog to digital printing, which will drive increased sales of systems, consumables and services. As part of our strategy, we will continue to bring to the market solutions that enable efficient mass production and customization in a rapidly transforming industry that is shifting to shorter production runs and mass production of on-demand, at times one-by-one, orders. We believe that removing market barriers includes periodically introducing to the market innovative digital processes that address key industry pain points and gaps, which traditional analogue techniques cannot handle, do so with poor quality, or do so in a non-cost efficient or environmentally sustainable manner. We believe that continuing to remove market and technology barriers and developing new features and functionality of our solutions will allow us to win new customers and increase system, consumables and services sales to existing customers.

### ***Enter Key Adjacent Markets.***

We plan to continue growing our customer base by targeting new customers in markets that are adjacent to the markets in which we have been operating. To-date, we have been catering predominantly to the customized design market, consisting of online businesses of different sizes, focused mainly on mass customization and personalization that are enabled by using our technology. An example of our success in this market is the Master Purchase Agreement, that we entered into on January 10, 2017, with an affiliate of Amazon.com, Inc. To date we have supplied several systems, large quantities of inks and consumables and have been providing paid service to multiple facilities under the agreement. During the years 2018 and 2019, Amazon related revenues were \$24.2 million and \$22.15 million, respectively. We expect that our relationship with Amazon will continue to expand in the future and that they will remain a significant customer. We expect continued growth with other existing customers in the customized design market as they seek to grow capacity, provide new applications and expand into new market segments and geographies. We also expect to add new customers in the customized design market, as the market continues to grow and develop. With the breadth of our existing portfolio and our continued investment in features and functionality, we believe we are well positioned to expand our market reach by penetrating adjacent markets in the form of traditional and start-up brands, private labels, and the promotional market, in which we can drive adoption of digital DTG printing solutions in place of analogue screen-printing production methods, which are currently primarily relied upon. While we have started to penetrate these markets, directly or via third-party fulfillers and decorators, we plan to deepen our penetration into these important markets as they seek to transform their business and operating models.

### ***Maximize system utilization by existing customers.***

We are focused on increasing sales to existing customers by introducing new digital printing applications, developing new features and functionality of our systems, offering new system upgrade products to make it easier for customers to renew their fleets and update their IB to the latest technology available, increasing sales of software and value-added services, offering customers empowerment program inclusive of basic and advanced training, with a goal of enabling our customers to increase utilization of their systems. We also intend to actively refer business to our customers by connecting them with online businesses that seek fulfillment partners, which will enhance customer intimacy. Our objective is to help customers operate their businesses more efficiently, print more impressions and increase utilization of their systems, thereby requiring more ink and other consumables purchases as well as potential investment in new systems as they require additional capacity.

***Expanding our GTM and services business.***

We continue to invest in our go-to-market infrastructure across geographies, including in our sales, applications, and services teams. While maintaining an overall hybrid go-to-market strategy that includes both indirect and direct sales, we have adopted a direct sales model in North America and are assessing moving towards that model in one or more additional key markets. In North America, we initiated the transition towards direct sales via our acquisition of the U.S.-based digital DTG printing assets of SPSI in 2016, in which we acquired an increasing number of larger accounts, which require a more direct relationship between our company and the related customers. We completed the transition in North America to a full direct sales model in February 2019, with our acquisition of customer business assets from Hirsch, our former primary distributor in the United States and Canada. By fostering direct sales relationships with our North American customers, we aim to deepen our relationship with them as well as better align our product roadmap to meet their needs.

Strategic accounts are an important and valued part of our business and future growth, and we continue to make the appropriate investments in ensuring we serve their needs as it comes to sales, application consulting and services support. We expect to continue developing our strategic accounts practice in a combination of dedicated regional and corporate resources as we strive to help these important customers improve their business performances by delivering best-in-class customer experience.

We are seeking to increase the number of customers that rely on us to provide services for their systems by expanding our service capabilities and driving adoption of our portfolio of services contracts. As of December 31, 2019, we had service contracts in place with approximately 24% of our installed base. Service revenues exceeded 10% of our overall revenues for the first time in 2017 and, in 2019, amounted to \$23.3 million. In addition to driving gross margin improvement, we believe this will provide us an opportunity for direct contact with customers with the goal of reducing system down-time, educating customers about optimal use of our systems to drive increased utilization and growth in the number of impressions printed, expanding the variety of print applications and increasing sales of post-warranty service contracts and other professional application development services.

***Extend our leadership position through acquisitions and strategic partnerships.***

We seek to continue to differentiate ourselves and extend our leadership position. From time to time, we may supplement our internal efforts with complementary inorganic initiatives such as acquisitions and strategic partnerships to enhance our positioning. For example, our acquisition of Polymeric Imaging in 2015 expanded our ink technology capabilities, our acquisitions of the digital DTG printing assets of SPSI in 2016 enabled us to strengthen our direct sales channel and gain access to a large screen-printing customer base, and the acquisition of business assets from Hirsch in 2019 helped us transition to a full direct sales model in North America. Each of these acquisitions enhanced the positioning of our company. Future acquisitions may also allow us to strengthen our existing portfolio of solutions or add new capabilities.

## Our Products

### Direct-to-Garment (DTG) Systems

In 2019 we started consolidation of our core DTG products portfolio to rely on our HD technology. This represents a clear focus in our product offering, supporting our strategy to penetrate the market segment of brands and private labels. The combination of our HD technology, together with the Eco-Rapid ink-set, introduced in January 2019, enables our customers to produce retail-quality prints with competitive cost per print, allowing them to replace screen printed jobs, including those targeted for the retail market. Levelling up our entire product portfolio to the superior performance of our HD technology allows us to execute on our screen-replacement strategy across different market segments and a variety of customer types and sizes. The underlying strategy behind this system lineup is to accommodate a variety of customer types with the highest digital printing capabilities at a variety of productivity levels and price points, as they are now able to produce the same retail-quality at the same CPP on all our HD systems. The differentiation across our new line of HD systems is mainly based on system productivity and total cost of ownership, with a clear benefit to our higher productivity systems.

#### Yearly Output HD Portfolio

System	Output range*
Storm HD6 Lite	50K-60K (1)
Storm HD6	96K-165K (2)
Avalanche HD6	237K-360K (3)
Atlas	422K-640K (3)
Vulcan Plus	620K-940K (3)

\* Yearly output measured in high productivity print mode (13"X13", Dark)

(1) The calculation is based on productivity of 8 hours shift in the range of 220 working days to 250 working days.

(2) The calculation is based on productivity range of 8 hours shift in 220 working days to 12 hours shift in 250 working days.

(3) The calculation is based on productivity range of 12 hours shift in 220 working days to 16 hours shift in 250 working days

In the beginning of 2019, we launched a new industrial DTG platform – the Kornit Atlas. The Atlas represents our next generation direct-to-garment printing platform, equipped with our next generation HD technology and designed mainly for high-volume garment decoration businesses and mid-to-large size screen printers. With its retail-grade print quality, high productivity and attractive total cost of ownership, the Atlas allows our customers to serve additional market needs and open new opportunities.

In January 2020, we introduced the Storm HD6 Lite Refurbished, which effectively replaces the Kornit Storm II, enables DTG printing for smaller print operations, such as commercial printers moving to the industrial market and analogue printers broadening their production capabilities. It has a production capacity of up to 60,000 impressions annually and provides on-demand DTG printing that meets high-level, retail quality and sustainability standards.

In January 2020, we also launched the Vulcan Plus, which is currently our highest productivity HD system, with the best total cost of ownership for large production facilities with high volumes of mass customization print jobs. The Vulcan Plus is based on the Vulcan platform, that was introduced in 2016, and was designed based on our customers feedback and field experience with the platform.

Building on the massive new product introduction of 2019 and the beginning of 2020 we were able to create an extensive HD product portfolio, ranging all our main product platforms and a multitude of product configurations – starting from the Storm, through the Avalanche, and all the way to the Atlas and the Vulcan. In alignment with our products upgrade strategy, different upgrade paths are available to the HD systems, enabling our customers to equip themselves with new and superior capabilities and improve cost of ownership on their existing systems, expanding their business opportunities and allowing us to gain additional revenues from our existing installed base.

**Specialty DTG:** In 2019 we established another line of products as a part of our DTG offering – specialty solutions. This new line of products introduces a diversification in our offering, representing our product strategy of solutions. The underlying strategy behind this new line of products is to identify specific market needs and application challenges representing major market opportunities and address them with unique and specific solutions. In 2019 we introduced a new and innovative process for printing on dyed polyester, addressing the cross-industry challenge of dye-migration, when decorating dyed polyester. This new solution was introduced to market during 2019 on a new system from the Avalanche platform – the Avalanche Poly Pro.

Based on our new NeoPoly technology, the Avalanche Poly Pro can print on dyed polyester, using our new and innovative low temperature curing process, thus eliminating the challenge of dye-migration, currently existing in all other polyester decoration techniques.

The Avalanche Poly Pro enables the production of on-demand customized polyester products, without minimum order quantity, providing all the advantages of digital printing on polyester. The system can print on a variety of polyester fabrics including poly blends (e.g. poly-lycra, poly-cotton), a variety of fabric builds and textures, including woven and knitted fabrics, as well as on recycled polyester. This new specialty product solution is added to the already existing Avalanche DC Pro, which is the only digital solution we know for discharge printing in the market.

## Direct-to-Fabric (DTF) Systems

**Presto:** Our Presto system has replaced our Allegro system - which was the first DTF printing system to allow for one-step DTF printing. The Presto, like the Allegro, combines a printing system and a drying and curing module so that a full end-to-end manufacturing process is enabled. Unlike the Presto, most DTF printers require additional steps. The Presto (like the Allegro before it) takes advantage of our patented wet-on-wet methodology to allow for in-line printing on various fabrics, without requiring a separate pre-treatment process, thereby avoiding the need to use textiles that are specifically pre-treated for digital printing. The Presto is designed to achieve high throughputs and does not require water or steam for any part of the printing process, making it friendly to the environment. By using our proprietary pigment-based ink, Presto can print on a variety of natural and synthetic fabrics providing customers with a significant level of flexibility. Most other dye-based systems are specifically designed to print on specific fabric types and cannot be used with other types of fabric as the processes and consumables used vary considerably from one to the other.

Our systems range in pricelist from \$69,000 to over \$820,000 and consume an average of \$5,000 to \$300,000 of ink and consumables annually per system.

### Summary of DTG Systems:

The following table summarizes key aspects of our DTG systems, all of which are compatible with a wide range of fabrics, including cotton, wool, polyester, viscose, lycra and various blends, and print at maximum resolutions ranging from 600 to 1,200 DPI. With the introduction of our Avalanche Poly Pro, our systems now also enable large-scale printing on dyed polyester, which has served as an entry point for us into the lucrative athleisure market.

System	Target Customer	Effective Throughput		Colors	Max. Printing Area
		Light	Dark		
<b>Breeze</b>	Entry Level	32	25	CMYK + White	14 x 18 in
<b>Storm HD6 Lite</b>	High Throughput	40	30 <sup>(2)</sup>	CMYKGR + White	20 x 28 in
<b>Storm 1000*</b>	High Throughput	170	85	CMYK + White	20 x 28 in
<b>Storm Hexa</b>	High Throughput	170	85	CMYKRG + White	20 x 28 in
<b>Storm HD6</b>	High Throughput	70	55 <sup>(2)</sup>	CMYKRG + White	20 x 28 in
<b>Storm Duo*</b>	High Throughput	190	N.A	CMYK + White	20 x 28 in
<b>Avalanche*</b>	High Throughput	150	100	CMYK + White	23.5 x 35 in
<b>Avalanche Poly Pro</b>	High Throughput	106	85	CMYK + White + Poly Enhancer	23.5 x 35 in
<b>Avalanche DC Pro</b>	High Throughput	150	100	CMYK + White + Discharge ink	23.5 x 35 in
<b>Avalanche 1000*</b>	High Throughput	220	160	CMYK + White	23.5 x 35 in
<b>Avalanche Hexa*</b>	High Throughput	180	140	CMYKRG + White	23.5 x 35 in
<b>Avalanche HDK</b>	High Throughput	105	85 <sup>(2)</sup>	CMYK + White	23.5 x 35 in
<b>Avalanche HD6</b>	High Throughput	105	85 <sup>(2)</sup>	CMYKRG + White	23.5 x 35 in
<b>Atlas</b>	High Throughput	200	160 <sup>(2)</sup>	CMYKRG + White	23.5 x 35 in
<b>Paradigm II*</b>	High Throughput	120	120	CMYK	15.5 x 19.5 in
<b>Vulcan</b>	High Throughput	250	250	CMYKRG + White	15.5 x 19.5 in
<b>Vulcan Plus</b>	High Throughput	235	235	CMYKRG + White	15.7 x 19.7 in

\* System undergoing End of Life process.

(1) Maximum output for sellable product for dark and light garments. Output for all systems, except the Vulcan and Vulcan Plus, is measured in High Productivity print mode using A4 size prints per hour with pretreatment included. Output for the Vulcan and Vulcan Plus systems is measured in Standard print mode using 12 x 12 in size prints per hour with pretreatment included. The throughput measurement is based on 10 t-shirt print procedure.

(2) Measurement method changed to 13"x13" image impression instead of A4.

## **Ink and Other Consumables**

Kornit NeoPigment™ inks are water based, non-toxic, phthalate free and free of heavy metals and follow the highest international sustainability standards such as Eco-Passport, GOTS and per specific customer requirements. Our ink and consumables consist of our patented NeoPigment™ ink, proprietary binding agent, priming fluid, wiping fluid and flushing fluid. We categorize our line of inks into two category groups: Direct-to-Garment and Direct-to-Fabric.

For our DTG systems we hold four set of ink series: NeoPigment™, NeoPigment™ Rapid, NeoPigment™ Eco-Rapid and NeoPigment™ Olympia. The first two ink sets are designed for Kornit legacy products while the Eco-Rapid is the most advanced ink set designed for retail quality. These three ink sets are available in seven colors (W+CMYKRG) and a complementary binding agent. NeoPigment™ Olympia is designed for our new polyester printing system, the Avalanche Poly Pro, available in five colors (W+CMYK) and an enhancer. The printing process is unique and innovative specially designed for polyester printing overcoming the challenges by implementing four crucial steps. The first step, a fixation agent specially designed and formulated for polyester fabrics. The second step, white layer with special properties resulting in high quality white color, high opacity and elastic properties for high performance. The third step, CMYK printing, allowing increased color gamut and spot color matching and finishing with a poly-enhancer, designed for high quality finishing with improved durability and refined hand-feel.

For our Direct-to Fabric systems we have two ink set: NeoPigment™ Intenso and NeoPigment™ Robusto. Those are designed for our Roll-to-Roll systems and consist of six colors (CMYKRG), while the Intenso holds additional fluorescent colors and a light-K color. with our Direct-to-Fabrics ink series we have developed and patented a fixation on the fly (FOF) process. This unique consumable allows to print in a single step solution, avoiding the need of fabric pre-treatment and enabling minimal environmental impact.

All our inks are formulated for optimal use exclusively in our systems. Our patented wet-on-wet printing methodology that involves spraying a wetting solution on the fabric before applying our proprietary pigment-based inks. This unique capability enables our systems to reach high throughput levels while still producing high quality images and designs. The wetting solution prevents the ink from bleeding into the textile and fixes the ink drops, which enables digital printing with high color-intensity and image sharpness. This printing methodology combines the use of pigments rather than dyes in conjunction with our proprietary binding agent and allows us to print on a wide range of fabrics without the need for a separate pre-treatment process or system reconfiguration, resulting in minimal setup times for each run and high throughput levels. Given the proprietary nature of our printing methodology, our ink and consumables attachment rate is close to 100%. We also continuously invest in the development of new ink formulas for our systems in order to expand the range of applications we can print, further increase the quality of our high-resolution images and designs and improve color fastness.

We have developed two patented methods for printing on dark or colored fabrics. The first method involves printing a layer of specially formulated white ink as a base upon which to print colored images and designs. Printing on top of this foundation enhances color intensity and creates contrast against the dark or colored fabric. In addition, we have developed a patented discharge ink for printing on dark or colored fabrics. The discharge ink bleaches the fabric dye and applies colored ink in the locations where the discharge ink removed the fabric dye. This method, which is primarily used by brand owners and contract printers, allows the printing of high-resolution images and designs without compromising the texture or feel of the garment.

## **Software Solutions**

Our DTG systems arrive with our QuickP Production software embedded. The software manages the system operation and prepares image files for print. QuickP Production is a simple to use solution that allows users to control key operating parameters, such as ink dots per inch, or DPI, perform maintenance and calibration procedures and import image files and prepare them for print.

Some of our customers also purchase our QuickP Designer software. QuickP Designer is a software package that combines our own internally developed Raster Image Processing, or RIP, software with other print job management capabilities and includes an advanced ink consumption estimation tool. A single QuickP Designer license can be used to support multiple Kornit systems.

In 2018 we introduced to market a new professional RIP software specifically designed in full collaboration with ColorGate. This new offering allows our customers to enhance our systems' performance in the areas of print quality and color management, allowing them to achieve superior results and manage high-end color demanding applications. The combination of this new product offering, together with our HD technology, also serves our screen-printing replacement strategy, allowing our customers to achieve color accuracy and matching to screen prints.

In June 2019 we introduced to the market the Kornit Konnect, our new cloud-based, software analytics connectivity platform that enables businesses to maximize productivity of their digital printing solutions. In its first phase, the Kornit Konnect enables businesses to monitor production, analyze insights and manage their fleet, in order to eliminate blind spots. It includes a fleet management dashboard, data driven benchmarks, actual production costs, and cost structures per job, making it easy for businesses to learn more, react faster and perform better.

## **Our Services**

Our services consist of maintenance and support, and professional services. We are seeking to increase the number of customers that rely on us to provide services for their systems by expanding our service capabilities. As of December 31, 2019, we had service contracts in place with approximately 32% of our industrial and mass production installed base. Starting in 2020, we expect this rate to increase, as according to our new policy, each industrial system will be sold along with a service contract. Service revenues exceeded 10% of our overall revenues for the first time in 2017 and, in 2019, amounted to \$23.3 million. In addition to driving gross margin improvement, we believe this will provide us an opportunity for direct contact with customers with the goal of reducing system down-time, educating customers about optimal use of our systems to drive increased utilization, expanding the variety of print applications and increasing sales of post-warranty service contracts and other professional application development services.

### **Maintenance and Support**

Starting in 2019, we provide a six-month warranty, which covers parts, labor, and remote support. Our customers can also purchase an additional year of support coverage at the time of purchase. After this period, customers can renew their support contract by purchasing a support package that includes remote support, on-site support, software updates, and on-site yearly maintenance. Alternatively, they can choose to rely on our support on a time-and-materials basis. In the United States, we provide direct service to all of our customers. In the EMEA region, we provide direct service to nearly half of our install base, while the other half receives that support through our independent distributors. In the Asia Pacific region, service is provided by our independent distributors, and we provide second line support, if needed.

### **Professional Services**

Our systems are designed such that customers can operate them without the assistance of our company or our independent distributors. However, we provide the Customer Empowerment Program to ensure an efficient knowledge-transfer process and to help our customers become proficient and independent at operating their systems in a short period of time

The Customer Empowerment Program is composed of four touchpoints:

- **Digital Touchpoint:** This is available before the system is installed at the customer site. Includes access to a variety of online tutorials and documentation.
- **Basic Technical and Application Training:** Consists of a five-day course in our training center. Includes an overview of the system and involves practice by the customer performing typical maintenance, application, and operation procedures.
- **Installation Training –** Consists of three days on-site during the installation of the system, to ensure that the machine is up-and-running as expected.
- **Ramp-up Training –** Three to five days of professional services. Includes customized consulting aimed at optimizing the use of our systems. These professional services are provided at our regional offices or on-site at the customer.



We have furthermore established three training centers at our regional offices in the US, Germany, and Hong Kong, respectively. We continuously seek to expand the number and content of our training programs.

## **Our Customers**

Our diverse global customer base consisted of more than 1,000 customers as of December 31, 2019. Throughout our growing installed base, our customers can serve a variety of different business models, particularly the new business models that have developed in response to the evolution of consumer trends and the rapid growth of the online retail market. Our solutions enable this category of “web-to-print” businesses to fulfill consumer demand more quickly and cost-effectively in a manner that is differentiated from traditional brick and mortar businesses. A number of large-scale, web-to-print platforms have emerged. These platforms often leverage digital printing solutions to facilitate business for other content providers.

The ecosystem of web-to-print businesses that we currently serve includes:

*Self-Fulfillment.* Companies manufacturing and selling their own designs that are advertised on their own websites and through other marketing means.

*Hybrid Printers.* Companies that both manufacture in-house and outsource manufacturing to third party fulfillment providers, who are often also our customers.

*Third Party Fulfillment Centers.* Companies serving as third party fulfillment for other businesses. Third party fulfillment providers include a number of our customers. Demand for these businesses is typically generated online through other web retailers.

Proximity to the end customer is a key factor for these businesses since it minimizes shipping costs and enables them to offer rapid turnaround to consumers, which is a key factor in choosing where to buy online apparel. In many cases, retailers have asked us for assistance in identifying our local customers to help with their fulfillment.

See “ITEM 10. Additional Information— C. - Material Contracts - Agreements with Amazon.”

## **C. Organizational Structure**

Our corporate structure consists of Kornit Digital Ltd., our Israeli parent company, and five wholly-owned subsidiaries: (1) Kornit Digital Technologies Ltd., which was incorporated on July 5, 2006 under the laws of the State of Israel, (2) Kornit Digital North America Inc., which was incorporated on September 12, 2007 under the laws of the State of Delaware, (3) Kornit Digital Europe GmbH, which was incorporated on April 20, 2011 under the laws of Germany, (4) Kornit Digital Asia Pacific Limited, which was incorporated on November 18, 2009 under the laws of Hong Kong, (5) Kornit Digital UK Ltd., which was incorporated on August 30, 2017 under the laws of England and Wales, and (6) Kornit Digital Japan KK which was incorporated on March 9, 2020 under the laws of Japan.

## **D. Property, Plant and Equipment**

Our corporate headquarters are located in Rosh Ha’Ayin, Israel in an office and research and development facility consisting of approximately 107,000 square feet. The lease for this office expires in December 2025, with an option to extend the lease for an additional five years. We lease an additional facility of approximately 8,000 square feet near our corporate headquarters. The lease for this additional space expires in December 2020, with an option to extend the lease for an additional 18 months. In Israel, we also lease a manufacturing facility in Kiryat Gat, which consists of approximately 19,000 square feet. The lease for the Kiryat Gat manufacturing facility expires on May 31, 2021, and we have an option to lease this facility for an additional three years. We can terminate this lease by providing 180 days’ prior notice. During high season we can more than double our current output at the facility by increasing the number of shifts on the existing production lines without requiring us to expand the physical structure of the facility. We have secured a location for a new, modern, manufacturing facility that we intend to build in Kiryat Gat with the goal of increasing operational efficiency and providing for improved safety and security. Construction began in January 2019 and is expected to be completed approximately in August 2020. We will experience some delays due to the effects of the coronavirus. We have incurred capital expenditures for the new facility in order to complete the acquisition of the property and building of this facility.

Our new U.S. headquarters are located in Englewood, New Jersey. We have entered into a lease for these headquarters, which are comprised of approximately 15,845 square feet of offices and warehouse. The lease for this location expires in February 2028. We maintain additional sales, support and marketing offices in Dusseldorf, Hong Kong and Shanghai.

**ITEM 4A. Unresolved Staff Comments.**

None.

**ITEM 5. Operating and Financial Review and Prospects.**

The information contained in this section should be read in conjunction with our financial statements for the year ended December 31, 2019 and related notes and the information contained elsewhere in this annual report. Our financial statements have been prepared in accordance with U.S. GAAP. This discussion contains forward-looking statements that are subject to known and unknown risks and uncertainties. As a result of many factors, such as those set forth under “ITEM 3.D. Risk Factors” and “Cautionary Note Regarding Forward-Looking Statements,” our actual results may differ materially from those anticipated in these forward-looking statements.

**Overview**

We develop, design and market innovative digital printing solutions for the global printed textile industry. Our vision is to revolutionize this industry by facilitating the transition from analog processes that have not evolved for decades to digital methods of production that address contemporary supply, demand and environmental dynamics. We focus on the rapidly growing high throughput DTG and DTF segments of the printed textile industry. Our solutions include our proprietary digital printing systems, ink and other consumables, associated software and value-added services that allow for large scale printing of short runs of complex images and designs directly on finished garments and fabrics.

We have developed and offer a broad portfolio of differentiated digital printing solutions for the DTG market that provide answers to challenges faced by participants in the global printed textile industry. Our DTG solutions utilize our patented wet-on-wet printing methodology that eliminates the common practice of separately coating and drying textiles prior to printing. This methodology also enables printing on a wide range of untreated fabrics, including cotton, wool, polyester, lycra and denim. Our patented NeoPigment ink and other consumables have been specially formulated to be compatible with our systems and overcome the quality-related challenges that pigment-based inks have traditionally faced when used in digital printing. Our software solutions simplify workflows in the printing process, by offering a complete solution from web order intake through graphic job preparation and execution.

Building on the expertise and capabilities that we have accumulated in developing and offering differentiated solutions for the industrial DTG market, we also market an industrial digital printing solution, the Presto, which targets the on-demand DTF market. While the DTG market generally involves printing on finished garments, the DTF market is focused on printing on fabrics that are subsequently converted into finished garments, home or office décor, and other items. The Presto (like our predecessor DTF product, the Allegro) utilizes our proprietary wet-on-wet printing methodology and houses an integrated drying and curing system. It offers the sole (following its predecessor, the Allegro) single-step, eco-friendly, stand-alone industrial DTF digital textile printing solution available on the market. We primarily market the Presto to innovative web-based businesses operating on-demand business models that require a high degree of variety and limited quantity orders, as well as to fabric converters, which source large quantities of fabric and convert untreated fabrics into finished materials to be sold to garment and home décor manufacturers. We believe that with the Presto we are well positioned to take advantage of the growing trend towards customized home décor and on-demand fabric printing. We began selling the Presto commercially in the second quarter of 2019 (after having introduced our initial DTF digital textile printing solution, the Allegro, four years earlier, in the second quarter of 2015).

Our go-to-market strategy consists of a hybrid model of indirect and direct sales, with a trend towards adopting a direct sales model in certain key markets, as we have done in North America. We have historically generated a significant portion of our sales through a global network of independent distributors and value added resellers that we refer to as our channel partners. Our channel partners, in turn, sell the solutions they purchase from us to customers for whom we provide installation services, or sell and install our solutions on their own. Our channel partners work closely with our sales force and assist us by identifying potential sales targets, closing new business and maintaining relationships with and, in certain jurisdictions, providing support directly to our customers. Our agreement with our previous primary independent distributor in North America terminated effective as of February 7, 2019, following which we transitioned towards a direct sales model in that region.

Maintenance and support for our systems is performed either by our own service organization or by service engineers employed by our distributors. This varies among the four regions that we currently serve, depending on the infrastructure we have established in each particular region. We provide professional services directly to some of our customers in all regions. Our customers can renew maintenance and support contracts for additional periods by purchasing a maintenance and support package that covers remote support, software upgrades and onsite yearly maintenance or they can choose to rely on our support on a non-contractual time and material basis.

We have an attractive business model that results in recurring sales of ink and other consumables driven by our growing installed base of systems. Our ink and other consumables are specially formulated to enable our systems to operate at the highest throughput level while adhering to high print quality requirements.

We intend to capitalize on the continued growth of the DTG market by expanding our diverse global customer base, with particular focus on the fast-growing web-to-print businesses. We also seek to increase our sales to existing customers, particularly sales of our ink and other consumables. At the same time, we look to acquire new high-volume customers, which drives higher sales of ink and other consumables. We are also seeking to extend our serviceable addressable market by introducing new features and functionality that enhance the capabilities of our systems and inks, and enable our systems to print on new types of media. We plan to accomplish these goals by investing in our direct sales force, developing new applications for our systems, introducing new solutions and growing our relationships with channel partners.

We were founded in 2002 in Israel and shipped our first system in 2005. As of December 31, 2019, we had 547 employees located across four regions: Israel, America, Europe and the Asia Pacific regions.

## **A. Operating Results**

*The information contained in this section should be read in conjunction with our audited financial statements for the years ended December 31, 2017, 2018 and 2019 and related notes and the information contained in ITEM 18. Financial Statements. Our financial statements have been prepared in accordance with GAAP.*

### **Components of Statement of Operations**

#### **Revenues**

##### *Systems, Ink and Other Consumables, Value Added Services*

Substantially all of our revenues are generated from sales of our systems and ink and other consumables. Prior to 2017, we derived, and in the near term we expect to continue to derive, a majority of our revenues from sales of our systems. However, in 2017, due to lower systems sales, which resulted in large part from the delay in receipt of permits for a new site for one of our large customers in the United States, we derived a larger portion of our revenues from sales of ink and consumables. In the medium term, we are targeting an equal mix of revenues from our systems compared to ink and other consumables, due to our growing installed base, which generates recurring revenues from sales of ink and other consumables. We do not, however, consider the period-to-period changes in our total installed base to be a helpful metric in assessing our performance because we currently sell a number of different systems that have significantly different throughput characteristics and average selling prices, which do not, therefore, provide evidence as to revenues from systems sales or expected consumables sales. Instead, because we have not experienced material changes in the prices at which we sell ink and other consumables, we believe the best measure of the success of our strategy for recurring revenues from our growing installed base is the amount of the increase in revenues from ink and other consumables that is generated in each period.

We generate the services portion of our revenues from the provision of spare parts to our distributors and customers, post-warranty service contracts, value added services consisting of time and material based support and system upgrades.

We have historically sold our products directly and through independent distributors who resell them to customers. Sales by our distributors accounted for approximately 44% and 30% of our revenues during 2018 and 2019, respectively. On February 7, 2019, our agreement with our previous primary independent distributor in North America, which accounted for 15% of our revenues in the year ended December 31, 2018, terminated. Despite our transition to a direct sales model in North America, we continue to generate a small, non-material portion of our revenues from the distribution of our products in North America via certain independent distributors.

We recognize revenues in accordance with ASC No. 606, "Revenue from Contracts with Customers". As such, we recognize revenue under the core principle that transfer of control to our customers should be depicted in an amount reflecting the consideration we expect to receive in revenue. Therefore, we identify a contract with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to each performance obligation in the contract and recognize revenues when, or as, we satisfy a performance obligation.

We periodically provide customer incentive programs including product discounts, volume-based rebates and warrants, which are accounted for as variable consideration which is deducted from revenue in the period in which the revenue is recognized. These reductions to revenue are made based upon reasonable and reliable estimates that are determined by historical experience and the specific terms and conditions of the incentive

See "-Critical Accounting Policies-Revenue Recognition".

#### *Geographic Breakdown of Revenues*

The following table sets forth the geographic breakdown of revenues from sales to customers located in the regions indicated below for the periods indicated:

	2017		2018		2019	
	\$	%	\$	%	\$	%
<b>(in thousands except percentages)</b>						
U.S.	\$ 60,541	53.1%	\$ 77,652	54.5%	\$ 100,457	55.9%
EMEA	32,015	28.1	45,195	31.7	48,810	27.1
Asia Pacific	16,092	14.1	15,572	10.9	22,101	12.3
Other	5,440	4.7	3,954	2.9	8,498	4.7
<b>Total revenues</b>	<b>\$ 114,088</b>	<b>100.0%</b>	<b>\$ 142,373</b>	<b>100.0%</b>	<b>\$ 179,866</b>	<b>100%</b>

#### *Shipping and handling*

Shipping and handling fees that are charged to our customers are recognized as revenue in the period shipped and the related costs for providing these services are recorded as a cost of revenues.

#### *Cost of Revenues and Gross Profit*

Cost of revenues consists primarily of payments to the third-party contract manufacturers who assemble our systems and who are responsible for ordering most of the components for those systems. Cost of revenues also includes components for our systems for which we are responsible, such as print heads, as well as raw materials for ink and other consumables. Cost of revenues includes personnel expenses, such as operation and supply chain employees, and related overhead for the manufacturing of our systems, as well as expenses for service personnel involved in the installation and support of our systems, shipping and handling fees and overhead for the manufacturing process of ink and other consumables. We expect cost of revenues to increase in absolute dollars due to increased revenues but remain relatively constant or decrease as a percentage of total revenues, as we continue to improve our manufacturing processes and supply chain and as the costs related to our service infrastructure, which have a fixed component, are leveraged across a larger installed base.

Gross profit is revenues less cost of revenues. Gross margin is gross profit expressed as a percentage of total revenues. Our gross margin has historically fluctuated from period to period as a result of changes in the mix of the systems that we sell and the amount of revenues that we derive from ink and other consumables versus systems. In general, we generate higher gross margins from our high throughput systems compared to entry level systems. In addition, customers that purchase our high throughput systems generally use larger quantities of ink and other consumables, which generate higher margins than sales of systems. We expect that gross margins will increase due to improvements in economies of scale and improvements in services gross margin.

We currently provide maintenance and support for all of our systems sold in the United States even if the sale is made through a distributor. We are seeking to increase the number of customers that rely on us to provide maintenance and support for their systems by expanding our maintenance and support capabilities. In addition to driving gross margin improvement, we believe this will provide an opportunity for direct contact with customers with the goal of reducing system down-time, educating customers about optimal use of our systems to drive increased utilization, expanding the variety of print applications and increasing sales of post-warranty service contracts and other professional application development services. Our service operations have not been profitable on a stand-alone basis. We are seeking to generate greater revenues from our service offering, and thereby leverage the fixed cost component associated with it, by increasing sales of post-warranty service contracts, selling upgrade kits and providing other professional services.

### ***Operating Expenses***

Our operating expenses are classified into four categories: research and development expenses, sales and marketing expenses, general and administrative expenses and restructuring expenses. For each category, the largest component is generally personnel costs, consisting of salaries and related personnel expenses, including share-based compensation expenses. Operating expenses also include allocated overhead costs for facilities, including rent payments under our facility leases. We expect personnel and allocated costs to continue to increase at a controlled pace as we hire new employees to support growth of our business, but at a slower pace than in prior years. In the long term, we expect operating expenses to decrease as a percentage of revenues.

*Research and Development Expenses.* The largest component of our research and development expenses is salaries and related personnel expenses for our research and development employees. Research and development expenses also include purchases of laboratory supplies; expenses related to beta testing of our systems; and allocated overhead costs for facilities, including rent payments under our facilities leases. We record all research and development expenses as they are incurred. We expect research and development expenses to slightly increase in absolute terms as we continue to hire additional personnel for the development of upgrades to existing systems and additional systems that we develop. Our current research and development efforts are primarily focused on our next generation of DTF and DTG systems. We are also investing in the development of new ink formulas for our new systems and in order to expand the range of fabrics on which we can print and further improve color quality and diversification of our high-resolution images and designs.

*Sales and Marketing Expenses.* The largest component of our sales and marketing expenses is salaries and related personnel expenses for our marketing, sales and other sales-support employees. Sales and marketing expenses also include trade shows, other advertising and promotions, including distributor open houses and media advertising; sales-based commissions and allocated overhead costs for facilities, including rent payments under our facilities leases. We market our solutions using a combination of internal marketing professionals and our network of channel partners. We expect sales and marketing expenses to continue to increase in absolute terms in the near term as we add sales and marketing personnel, including pursuant to our direct product distribution strategy in certain key markets.

*General and Administrative Expenses.* The largest component of our general and administrative expenses is salaries and related personnel expenses for our executive officers, financial staff, information technology staff, and human resources staff. General and administrative costs also include fees for accounting and legal services and allocated overhead costs for facilities, including rent payments under our facilities leases. We expect our general and administrative expenses to increase in absolute terms in the near term, but at a slower pace than in prior years, as a result of the hiring of additional personnel to support our growth and to support our operations at our relatively new U.S. headquarters, which had been moved from Mequon, Wisconsin to Englewood, New Jersey.

## Finance Income, Net

Finance income, net consists of interest income and foreign currency exchange gains or losses. Foreign currency exchange changes reflect gains or losses related to changes in the value of our non-U.S. dollar denominated financial assets, primarily cash and cash equivalents, and trade payables and receivables. As of December 31, 2019, we did not have any indebtedness for borrowed amounts. Interest income consists of interest earned on our cash, cash equivalents, short-term bank deposits and marketable securities, offset by amortization of premium on marketable securities. We expect interest income to vary depending on our average investment balances and market interest rates during each reporting period.

## Taxes on Income

The corporate tax rate in Israel was 24% in 2017 and was reduced to 23% for 2018 and all subsequent years. However, as discussed in greater detail below under “Taxation and Israeli Government Programs Applicable To Our Company — Israeli Tax Considerations and Government Programs,” we and our wholly-owned Israeli subsidiary, Kornit Technologies, are entitled to various tax benefits under the Israeli Law for the Encouragement of Capital Investments, 1959, or the Investment Law.

Starting January 1, 2014 and based on the Israeli law, we consolidate the two separate results of our Israeli operations only for tax purposes such that net operating loss carryforwards of Kornit Technologies generated from 2014 onwards can be used to offset Israeli taxable income from us. Kornit Technologies currently generates enough carryforward net operating losses to offset the taxable income of the parent. Accordingly, we were not subject to effective income tax in Israel in 2017, 2018 or 2019, and our effective tax rate was the blended rate of our Israeli tax and those of our non-Israeli subsidiaries in their respective jurisdictions of organization. [NATY – done 19.3.20]

Under the Investment Law and other Israeli legislation, we are entitled to certain additional tax benefits, including accelerated depreciation and amortization rates for tax purposes on certain assets, deduction of public offering expenses in three equal annual installments and amortization of other intangible property rights for tax purposes.

## Comparison of Period to Period Results of Operations

	Year Ended December 31,		
	2017	2018	2019
	(in thousands)		
Revenues			
Products	\$ 101,953	\$ 125,729	\$ 156,594
Services	12,135	16,644	23,272
Total revenues	<u>114,088</u>	<u>142,373</u>	<u>179,866</u>
Cost of revenues			
Products	46,480	53,303	71,057
Services	13,497	19,201	26,733
Total cost of revenues	<u>59,977</u>	<u>72,504</u>	<u>97,790</u>
Gross profit	<u>54,111</u>	<u>69,869</u>	<u>82,076</u>
Operating expenses:			
Research and development	20,834	21,912	22,407
Sales and marketing	21,279	25,596	33,573
General and administrative	13,578	16,436	18,498
Restructuring expenses	503	321	-
Total operating expenses	<u>56,194</u>	<u>64,265</u>	<u>74,478</u>
Operating income (loss)	<u>(2,083)</u>	<u>5,604</u>	<u>7,598</u>
Finance income, net	452	1,433	3,313
Income (loss) before taxes on income (tax benefit)	<u>(1,631)</u>	<u>7,037</u>	<u>10,911</u>
Taxes on income (tax benefit)	384	(5,392)	744
Net income (loss)	<u>\$ (2,015)</u>	<u>\$ 12,429</u>	<u>\$ 10,167</u>

	Year Ended December 31,		
	2017	2018	2019
	(as a % of revenues)		
Revenues			
Products	89.4%	88.3%	87.1%
Services	10.6	11.7	12.9
Total revenues	<u>100</u>	<u>100</u>	<u>100</u>
Cost of revenues			
Products	40.8	37.4	39.5
Services	11.8	13.5	14.9
Total cost of revenues	<u>52.6</u>	<u>50.9</u>	<u>54.4</u>
Gross profit	<u>47.4</u>	<u>49.1</u>	<u>45.6</u>
Operating expenses:			
Research and development	18.3	15.4	12.5
Sales and marketing	18.7	18.0	18.7
General and administrative	11.9	11.5	10.3
Restructuring expenses	0.4	0.2	-
Total operating expenses	<u>49.3</u>	<u>45.1</u>	<u>41.5</u>
Operating income (loss)	<u>(1.8)</u>	<u>3.9</u>	<u>4.2</u>
Finance income, net	0.4	1	1.8
Income (loss) before taxes on income (tax benefit)	<u>(1.4)</u>	<u>4.9</u>	<u>6.1</u>
Taxes on income (tax benefit)	0.3	(3.8)	0.4
Net income (loss)	<u>(1.8)%</u>	<u>8.7%</u>	<u>5.7%</u>

#### **Comparison of the Years Ended December 31, 2018 and 2019**

##### *Revenues*

Revenues increased by \$37.5 million, or 26.3%, to \$179.9 million in 2019 from \$142.4 million in 2018, which is net of \$5.1 million and \$4.6 million, in 2019 and 2018, respectively, in fair value of the warrants associated with revenues recognized from Amazon. The growth in revenues resulted from: a 8.9% increase in ink and other consumables revenues to \$65.2 million in 2019 from \$59.9 million in 2018; a 39.8% increase in service revenues to \$23.3 million in 2019 from \$16.6 million in 2018, and an increase of 38.8% in systems revenues from \$65.8 million in 2018 to \$91.4 million in 2019. The \$5.3 million increase in ink and other consumables revenues was due to a larger installed base, partially offset by install base transition to HD technology (which does not consume ink and other consumables as much). The \$25.5 million increase in systems revenues was attributable to the launch of new systems and upgrades, which resulted in accelerated growth of our install base. The increase in our services revenues was due to an increase in sales of spare parts and service contracts to our installed base as well as an increase in systems upgrades.

##### *Cost of Revenues and Gross Profit*

Cost of revenues increased by \$25.3 million, or 34.9%, to \$97.8 million in 2019 from \$72.5 million in 2018. Gross profit increased by \$12.2 million, or 17.5%, to \$82.1 million in 2019 from \$69.9 million in 2018. Gross margin decreased to 45.6% in 2019, compared to 49.1% in 2018 as a result of the following factors: an additional \$3.0 million of cost of revenues incurred related to an acquisition in 2019; less favorable product mix in 2019; and an increase in inventory write-offs by \$1.0 million in 2019 compared to 2018.

## Operating Expenses

	Year Ended December 31,				Change	
	2018		2019		Amount	%
	Amount	% of Revenues	Amount	% of Revenues		
	(\$ in thousands)					
<b>Operating expenses:</b>						
Research and development	\$ 21,912	15.4%	\$ 22,407	12.5%	\$ 495	2.3%
Sales and marketing	25,596	18.0	33,573	18.7	7,977	31.2
General and administrative	16,436	11.5	18,498	10.3	2,062	12.5
Restructuring expenses	321	0.2	-	-	(321)	(100)
Total operating expenses	\$ 64,265	45.1%	\$ 74,478	41.5%	10,213	15.9%

**Research and Development.** Research and development expenses increased by 2.3% in 2019 compared to 2018. This primarily reflected the robust growth in our operations in 2019, and was driven by an increase of \$1.1 million in salaries and related personnel expenses and share based compensation due to an increase in the number of employees, with higher seniority and variable compensation payout, compared to 2018, offset, in part, by a decrease of \$0.4 million in expenses related to consulting services. As a percentage of total revenues, our research and development expenses decreased during this period from 15.4% in 2018 to 12.5% in 2019. This primarily resulted from the capitalization of software development expenses in an amount of \$1.2 million in 2019, which had the effect of reducing research and development expenses in 2019.

**Sales and Marketing.** Sales and marketing expenses increased by 31.2% in 2019 compared to 2018. This increase was primarily due to: an increase of \$4.4 million in salaries and related personnel expenses and share-based compensation expenses, mainly due to a higher average number of employees during 2019 compared to 2018; an increase in sales commissions and variable compensation paid in 2019; and a \$1.6 million increase due to participation in ITMA shows and increased investment in product roadshows compared to 2018. As a percentage of total revenues, our sales and marketing expenses increased during this period from 18.0% in 2018 to 18.7% in 2019.

**General and Administrative.** General and administrative expenses increased by 12.5% in 2019 compared to 2018. This primarily resulted from an increase of \$1.4 million in salaries, related personnel expenses and share-based compensation expenses mainly due to the hiring of additional personnel and an increase of \$0.5 million in IT expenses and of \$0.3 million in consulting service expenses. As a percentage of total revenues, our general and administrative expenses decreased from 11.5% in 2018 to 10.3% in 2019.

**Restructuring Costs.** During 2017, we determined to transition our US headquarters to New Jersey. As part of this transition, we entered into agreements with certain employees for early retirement or retention. We recorded expenses of \$0.3 million in 2018, related to those agreements. We did not record any expenses related to restructuring costs in 2019.

### Finance Income, Net

Finance income, net amounted to \$1.4 million of income in 2018 compared to income of \$3.3 million in 2019. The \$1.9 million increase primarily resulted from \$4.5 million of financial income from interest on marketable securities, bank deposits and other sources in 2019 compared to \$2.5 million of financial income from those sources in 2018.

### Taxes on Income

Taxes on income amounted to \$0.7 million in 2019 compared to tax benefit of \$5.4 million in 2018. We record net deferred tax assets to the extent we believe these assets will more likely than not be realized. As of each reporting date, our management considers new evidence, both positive and negative, that could impact management's view with regards to the future realization of deferred tax assets for each jurisdiction. During the year ended December 31, 2018, we released \$5.5 million of valuation allowances against our deferred tax assets, primarily related to the carrying forward of net operating losses, or NOLs.



We are currently subject to a tax audit for the years 2013 to 2018 by the Israeli Tax Authority, or ITA. We have received the assessments for years 2013 and 2014 these assessments are subjects to another review by the ITA before they are finalized. The company is eligible to send its comments before the second review. According to a legal opinion we received from our legal counsels, the claims we had and the positions we took on our tax returns are solid and valid, and we don't believe the first assessment will be effective. The ITA may furthermore disagree with our positions taken in our tax returns for any other years as well, and we may be subject to additional tax liabilities, which could have a material adverse effect on our results of operations.

### ***Comparison of the Years Ended December 31, 2017 and 2018***

We have omitted in this annual report a discussion comparing the results of our operations for the years ended December 31, 2017 and 2018. In order to view that discussion, please see "ITEM 5. Operating and Financial Review and Prospects - A. Operating Results - Comparison of Period to Period Results of Operations - Comparison of the Years Ended December 31, 2017 and 2018" in our Annual Report on Form 20-F for the year ended December 31, 2018, which we filed with the SEC on March 26, 2019.

### **Critical Accounting Policies**

Our consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States (U.S. GAAP). These accounting principles are more fully described in Note 2 to our consolidated financial statements included elsewhere in this annual report and require us to make certain estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions upon which we rely are reasonable based upon information available to us at the time that these estimates, judgments and assumptions are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities as of the date of the financial statements, as well as the reported amounts of revenues and expenses during the periods presented. To the extent there are material differences between these estimates, judgments or assumptions and actual results, our financial statements will be affected. We believe that the accounting policies discussed below are critical to our financial results and to the understanding of our past and future performance, as these policies relate to the more significant areas involving management's estimates and assumptions. We consider an accounting estimate to be critical if: (1) it requires us to make assumptions because information was not available at the time or it included matters that were highly uncertain at the time we were making our estimate; and (2) changes in the estimate could have a material impact on our financial condition or results of operations.

We believe that the following significant accounting policies are the basis for the most significant judgments and estimates used in the preparation of our consolidated financial statements.

#### ***Revenue Recognition***

We generate revenues from sales of systems, consumables and services. We generate revenues from sale of our products directly to end-users and indirectly through independent distributors, all of whom are considered end-users. We recognize revenue under the core principle that transfer of control to our customers should be depicted in an amount reflecting the consideration we expect to receive in revenue. Therefore, we identify a contract with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to each performance obligation in the contract, and recognize revenues when, or as, we satisfy a performance obligation.

Revenues from products, which consist of systems and consumables, are recognized at the point in time when control has transferred, in accordance with the agreed-upon delivery terms.

Revenues from services are derived mainly from the sale of print heads, spare parts, upgrade kits and service contracts. Our print heads, spare parts and upgrade kits revenues (collectively "Spare parts") are recognized at the point in time when control has transferred, in accordance with the agreed-upon delivery terms. Service contracts are recognized over time, on a straight-line basis, over the period of the service.

For multiple performance obligations arrangements, such as selling a system with a service contract, installation and training, we account for each performance obligation separately, as it is distinct. The transaction price is allocated to each distinct performance obligation on a relative stand-alone selling price, or SSP, basis, and revenue is recognized for each performance obligation when control has passed. In most cases, we are able to establish SSP based on the observable prices of services sold separately in comparable circumstances to similar customers and for products based on our best estimates of the price at which we would have sold the product regularly on a stand-alone basis. We reassess the SSP on a periodic basis or when facts and circumstances change.

We do not account for training and installation as a separate performance obligation due to its immateriality in the context of our contracts. Accordingly, revenues from training and installation are recognized upon the delivery of our systems.

We periodically provide customer incentive programs in the form of product discounts, volume-based rebates and warrants, which are accounted for as variable consideration that are deducted from revenue in the period in which the revenue is recognized. These reductions to revenue are made based upon reasonable and reliable estimates that are determined according to historical experience and the specific terms and conditions of the incentive.

In cases in which old systems are traded in as part of sales of new printers, the fair value of the old printer is recorded as inventory, provided that such value can be determined.

### ***Inventories***

Inventories are measured at the lower of cost or net realizable value. Cost is computed using weighted average cost, on a first-in, first-out basis. Inventory costs consist of material, direct labor and overhead. We periodically assess inventory for obsolescence and excess and reduce the carrying value by an amount equal to the difference between its cost and the estimated net realizable value based on assumptions about future demand and historical sales patterns. This valuation requires us to make judgments, based on currently available information, about the likely method of disposition, such as through sales and expected recoverable values of each disposition category. These assumptions about future disposition of inventory are inherently uncertain and changes in our estimates and assumptions may cause us to realize material write-downs in the future.

As of December 31, 2019, we had \$37.5 million of inventory, of which \$21.4 million consisted of raw materials and components and \$16.1 million consisted of completed systems, ink and other consumables. We recorded inventory write-offs in total amounts of \$3.0 million, \$1.8 million and \$2.8 million for the years ended December 31, 2017, 2018 and 2019, respectively.

### ***Share-Based Compensation***

Under U.S. GAAP, we account for share-based compensation for employees in accordance with the provisions of the FASB's ASC Topic 718 "Compensation - Stock Based Compensation," or ASC 718, which requires us to measure the cost of options and RSUs based on the fair value of the award on the grant date.

The fair value of each RSU is the market value as determined by the closing share price at the date of the grant.

We selected the binomial option pricing model as the most appropriate method for determining the estimated fair value of options which requires the use of subjective assumptions, including the expected term of the award and the expected volatility of the price of our common stock. We recognize compensation expense over the vesting period using the straight-line method and classify these amounts in the consolidated financial statements based on the department to which the related employee reports. We will continue to use judgment in evaluating the assumptions related to our share-based compensation expense on a prospective basis. As we continue to accumulate additional data, we may have refinements to our estimates, which could materially impact our future share-based compensation expense.

## **Taxes**

We are subject to income taxes in Israel, United States Europe and Asia Pacific. Significant judgment is required in evaluating our uncertain tax positions and determining our provision for income taxes. We recognize income taxes under the liability method. Tax benefits are recognized from uncertain tax positions only if we believe that it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. Although we believe we have adequately reserved for our uncertain tax positions, no assurance can be given that the final tax outcome of these matters will not be different. We adjust these reserves when facts and circumstances change, such as the closing of a tax audit, the refinement of an estimate or changes in tax laws. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact the provision for income taxes in the period in which such determination is made. The provision for income taxes includes the effects of any reserves that are considered appropriate, as well as the related net interest and penalties.

We recognize deferred tax assets and liabilities for future tax consequences arising from differences between the carrying amounts of existing assets and liabilities under U.S. GAAP and their respective tax bases, and for net operating loss carryforwards and tax credit carryforwards. We regularly review our deferred tax assets for recoverability and establish a valuation allowance if it is more likely than not that some portion or all of the deferred tax assets will not be realized. To make this judgment, we must make predictions of the amount and category of taxable income from various sources and weigh all available positive and negative evidence about these possible sources of taxable income.

While we believe the resulting tax balances as of December 31, 2017, 2018 and 2019 are appropriately accounted for, the ultimate outcome of such matters could result in favorable or unfavorable adjustments to our consolidated financial statements and such adjustments could be material. We have filed or are in the process of filing local and foreign tax returns that may be audited by the respective tax authorities. We believe that we adequately provided for any reasonably foreseeable outcomes related to tax audits and settlement; however, our future results may include favorable or unfavorable adjustments to our estimated tax liabilities in the period the assessments are made or resolved, audits are closed or when statute of limitations on potential assessments expire.

## **Warranty costs**

During 2019 we granted a six-months warranty on our systems and recorded a provision for warranty at the time at which a product's revenue was recognized. We estimate the liability of possible warranty claims based on our historical experience. We estimate the costs that may be incurred under our warranty arrangements and record a liability in the amount of such costs at the time product revenue is recognized. We periodically assess the adequacy of the recorded warranty liabilities and adjust the amounts as necessary.

## **Marketable Securities**

Marketable securities currently are comprised of debt securities. We determine the appropriate classification of marketable securities at the time of purchase and re-evaluate such designation at each balance sheet date. In accordance with FASB ASC No. 320, "Investment Debt and Equity Securities," we classify marketable securities as available-for-sale. Available-for-sale securities are stated at fair value, with unrealized gains and losses reported in accumulated other comprehensive income (loss), a separate component of shareholders' equity, net of taxes. Realized gains and losses on sales of marketable securities, as determined on a specific identification basis, are included in finance income, net. The amortized cost of marketable securities is adjusted for amortization of premium and accretion of discount to maturity, both of which, together with interest, are included in finance income, net. We classify our marketable securities as either short-term or long-term based on each instrument's underlying contractual maturity date and our expectations as to sales and redemptions in the following year.

We recognize an impairment charge when a decline in the fair value of our investments in debt securities below the cost basis of such securities is judged to be other-than-temporary. The determination of credit losses requires significant judgment and actual results may be materially different from our estimates. Factors considered in making such a determination include the duration and severity of the impairment, the reason for the decline in value, the ability of the issuer to meet payment obligations, the potential recovery period and our intent to sell, including whether it is more likely than not that we will be required to sell the investment before recovery of cost basis. For securities that are deemed other-than-temporarily impaired, the amount of impairment is recognized in the statement of operations and is limited to the amount related to credit losses, while impairment related to other factors is recognized in other comprehensive income (loss).

During the years ended December 31, 2018 and 2019, no other-than temporary impairment were recorded related to our marketable securities.

### ***Recently Issued and Adopted Accounting Pronouncements***

For a summary of recent accounting pronouncements applicable to our consolidated financial statements see Note 2, “Significant Accounting Policies” to the Consolidated Financial Statements included in Part III, Item 18 of this Annual Report on Form 20-F.

### **Taxation and Israeli Government Programs Applicable to Our Company**

#### ***Israeli Tax Considerations and Government Programs***

The following is a brief summary of the material Israeli tax laws applicable to us, and certain Israeli Government programs that benefit us.

#### *General Corporate Tax Structure in Israel*

Israeli companies are generally subject to corporate tax on their taxable income. Since 2018, the corporate tax rate has been 23% (in 2017, the corporate tax rate was 24%). However, the effective tax rate payable by a company that derives income from an Approved Enterprise, a Benefited Enterprise, a Preferred Enterprise, a Special Preferred Enterprise, a Preferred Technology Enterprise or Special Preferred Technology Enterprise (as discussed below) may be considerably less. Capital gains derived by an Israeli company are subject to the prevailing corporate tax rate.

#### *Law for the Encouragement of Industry (Taxes), 5729-1969*

The Law for the Encouragement of Industry (Taxes), 5729-1969, generally referred to as the Industry Encouragement Law, provides several tax benefits for “Industrial Companies”. The Israeli companies are an “Industrial Company” as defined by the Israeli Law for the Encouragement of Industry (Taxation), 1969.

The Industry Encouragement Law defines an “Industrial Company” as a company resident in Israel, which was incorporated in Israel and of which 90% or more of its income in any tax year, other than income from certain government loans, is derived from an “Industrial Enterprise” located in Israel or in the “Area”, in accordance with the definition under section 3A of the Israeli Income Tax Ordinance (New Version) 1961, or the Ordinance, and owned by it. An “Industrial Enterprise” is defined as an enterprise whose principal activity in any given tax year is industrial production.

The following tax benefits, among others, are available to Industrial Companies:

- deduction of the cost of purchased know-how, patents and rights to use a patent and know-how or certain other intangible property rights (other than goodwill) that were purchased in good faith and are used for the development or promotion of the Industrial Enterprise, over an eight-year period commencing on the year in which such rights were first exercised;
- under limited conditions, an election to file consolidated tax returns with related Israeli Industrial Companies controlled by it; and
- expenses related to a public offering are deductible in equal amounts over three years, commencing in the year of the offering.

Eligibility for benefits under the Industry Encouragement Law is not subject to receipt of prior approval from any governmental authority.

There can be no assurance that we will continue to qualify as an Industrial Company or that the benefits described above will be available in the future.

#### *Law for the Encouragement of Capital Investments, 5719-1959*

The Law for the Encouragement of Capital Investments, 5719-1959, generally referred to as the Investment Law, provides certain incentives for capital investments in production facilities (or other eligible assets) by “Industrial Enterprises” (as defined under the Investment Law).

The Investment Law has been amended several times over the recent years, with the three most significant changes effective as of April 1, 2005, or the 2005 Amendment, as of January 1, 2011, or the 2011 Amendment and as of January 1, 2017, or the 2017 Amendment. Pursuant to the 2005 Amendment, tax benefits granted in accordance with the provisions of the Investment Law prior to its revision by the 2005 Amendment remain in force but any benefits granted subsequently are subject to the provisions of the 2005 Amendment. Similarly, the 2011 Amendment introduced new benefits to replace those granted in accordance with the provisions of the Investment Law in effect prior to the 2011 Amendment. However, companies entitled to benefits under the Investment Law as in effect prior to January 1, 2011 were entitled to choose to continue to enjoy such benefits, provided that certain conditions are met, or elect instead, irrevocably, to forego such benefits and have the benefits of the 2011 Amendment apply. We have examined the possible effect of these provisions of the 2011 Amendment on our financial statements and have decided not to opt to apply the new benefits under the 2011 Amendment and the 2017 Amendment for our company, and for our Israeli subsidiary we elected to apply the benefit under the 2011 Amendment. The 2017 Amendment introduces new benefits for Technological Enterprises, alongside the existing tax benefits.

The following discussion is a summary of the Investment Law following its most recent amendments:

#### *Tax Benefits Subsequent to the 2005 Amendment*

The 2005 Amendment applies to new investment programs and investment programs commencing after 2004, but does not apply to investment programs approved prior to April 1, 2005, referred to as Approved Enterprises. The 2005 Amendment provides that terms and benefits included in any certificate of approval that was granted before the 2005 Amendment became effective (April 1, 2005) will remain subject to the provisions of the Investment Law as in effect on the date of such approval. Pursuant to the 2005 Amendment, the Israeli Authority for Investments and Development of the Industry and Economy, or the Investment Center, will continue to grant Approved Enterprise status to qualifying investments. The 2005 Amendment, however, limits the scope of enterprises that may be approved by the Investment Center by setting criteria for the approval of a facility as an Approved Enterprise.

The 2005 Amendment provides that Approved Enterprise status will only be necessary for receiving cash grants. As a result, it was no longer necessary for a company to obtain the advance approval of the Investment Center in order to receive the tax benefits previously available under the alternative benefits track. Instead, a company may claim the tax benefits offered by the Investment Law directly in its tax returns, provided that its facilities meet the criteria for tax benefits set forth in the 2005 Amendment. Companies or programs under the new provisions receiving these tax benefits are referred to as Benefited Enterprises. A company that has a Benefited Enterprise may, at its discretion, approach the Israel Tax Authority for a pre-ruling confirming that it is in compliance with the provisions of the Investment Law, as amended.

Tax benefits are available under the 2005 Amendment to production facilities (or other eligible facilities) which are generally required to derive more than 25% of their business income from export to specific markets with a population of at least 14 million in 2012 (such export criteria will further be increased in the future by 1.4% per annum). In order to receive the tax benefits, the 2005 Amendment states that a company must make an investment which meets certain conditions set forth in the amendment for tax benefits, including exceeding a minimum investment amount specified in the Investment Law. Such investment entitles a company to receive a “Benefited Enterprise” status with respect to the investment, and may be made over a period of no more than three years from the end of the year in which the company requested to have the tax benefits apply to its Benefited Enterprise. Where a company requests to have the tax benefits apply to an expansion of existing facilities, only the expansion will be considered to be a Benefited Enterprise and the company’s effective tax rate will be the weighted average of the applicable rates. In such case, the minimum investment required in order to qualify as a Benefited Enterprise must exceed a certain percentage of the value of the company’s production assets before the expansion.

The extent of the tax benefits available under the 2005 Amendment to qualifying income of a Benefited Enterprise depends on, among other things, the geographic location within Israel of the Benefited Enterprise. The location will also determine the period for which tax benefits are available. Such tax benefits include an exemption from corporate tax on undistributed income for a period of between two to ten years, depending on the geographic location of the Benefited Enterprise within Israel, and a reduced corporate tax rate of between 10% to 25% for the remainder of the benefits period, depending on the level of foreign investment in the company in each year. The benefits period is limited to 12 or 14 years from the year the company first chose to have the tax benefits apply, depending on the location of the company within Israel.

A company qualifying for tax benefits under the 2005 Amendment which pays a dividend out of income derived by its Benefited Enterprise during the tax exemption period will be subject to deferred corporate tax in respect of the gross amount of the dividend distributed (grossed-up to reflect the pre-tax income that it would have had to earn in order to distribute the dividend) at the corporate tax rate which would have otherwise been applicable. Dividends paid out of income attributed to a Benefited Enterprise (or out of dividends received from a company whose income is attributed to a Benefited Enterprise) are generally subject to withholding tax at source at the rate of 15% or such lower rate as may be provided in an applicable tax treaty (subject to the receipt in advance of a valid certificate from the Israel Tax Authority allowing for a reduced tax rate). The reduced rate of 15% is limited to dividends and distributions out of income derived during the benefits period and actually paid at any time up to 12 years thereafter. After this period, the withholding tax is applied at a rate of up to 30%, or at a lower rate under an applicable tax treaty (subject to the receipt in advance of a valid certificate from the Israel Tax Authority allowing for a reduced tax rate). In the case of a Foreign Investors' Company (as such term is defined in the Investment Law), the 12-year limitation on reduced withholding tax on dividends does not apply.

We currently have Benefited Enterprise programs under the Investment Law which, entitle us to a tax exemption for undistributed income and a reduced tax rate. The benefits period for our company began in 2010. Our company had enjoyed these tax benefits until 2019. We believe that we qualify as a Preferred Technology Enterprise under the 2017 Amendment (as described below), and we are considering whether apply for benefits under the 2017 Amendment.

#### *Tax Benefits under the 2011 Amendment*

The 2011 Amendment canceled the availability of the benefits granted to companies in accordance with the provisions of the Investment Law prior to 2011 and, instead, introduced new benefits for income generated by a "Preferred Company" through its "Preferred Enterprise" (as such terms are defined in the Investment Law) as of January 1, 2011. The definition of a Preferred Company includes an industrial company that was incorporated in Israel, which is not wholly owned by a governmental entity, and which has, among other things, Preferred Enterprise status and is controlled and managed from Israel. Pursuant to the 2011 Amendment, a Preferred Company is entitled to a reduced corporate flat tax rate of 15% with respect to its preferred income derived by its Preferred Enterprise in 2011 and 2012, unless the Preferred Enterprise is located in a certain development zone, in which case the rate will be 10%. Such corporate tax rate was reduced to 12.5% and 7%, respectively, in 2013 and increased to 16% and 9% in 2014 and through 2016. Pursuant to the 2017 Amendment, in 2017 and thereafter, the corporate tax rate for a Preferred Enterprise which is located in a specified development zone was decreased to 7.5%, while the reduced corporate tax rate for other development zones remains 16%. Income derived by a Preferred Company from a 'Special Preferred Enterprise' (as such term is defined in the Investment Law) would be entitled, during a benefits period of 10 years, to further reduced tax rates of 8%, or to 5% if the Special Preferred Enterprise is located in a certain development zone. As of January 1, 2017, the definition of "Special Preferred Enterprise" includes less stringent conditions.

The tax benefits under the 2011 Amendment also include accelerated depreciation and amortization for tax purposes.

As of January 1, 2014, dividends paid out of preferred income attributed to a Preferred Enterprise or to a Special Preferred Enterprise are generally subject to withholding tax at source at the rate of 20% or such lower rate as may be provided in an applicable tax treaty (subject to the receipt in advance of a valid certificate from the Israel Tax Authority allowing for a reduced tax rate). However, if such dividends are paid to an Israeli company, no tax is required to be withheld (although, if subsequently distributed to individuals or a non-Israeli company, withholding of 20% or such lower rate as may be provided in an applicable tax treaty will apply). In 2017 through 2019 dividends paid out of preferred income attributed to a Special Preferred Enterprise directly to a foreign parent company are subject to withholding tax at source at the rate of 5% (temporary provisions).

The 2011 Amendment also provided transitional provisions to address companies already enjoying existing tax benefits under the Investment Law. These transitional provisions provide, among other things, that unless an irrevocable request is made to apply the provisions of the Investment Law as amended in 2011 with respect to income to be derived as of January 1, 2011: (i) the terms and benefits included in any certificate of approval that was granted to an Approved Enterprise which chose to receive grants and certain tax benefits before the 2011 Amendment became effective will remain subject to the provisions of the Investment Law as in effect on the date of such approval, and subject to certain conditions; (ii) terms and benefits included in any certificate of approval that was granted to an Approved Enterprise which had participated in an alternative benefits track before the 2011 Amendment became effective will remain subject to the provisions of the Investment Law as in effect on the date of such approval, provided that certain conditions are met; and (iii) a Benefited Enterprise can elect to continue to benefit from the benefits provided to it before the 2011 Amendment came into effect, provided that certain conditions are met. Kornit Technologies has filed a notification that it wishes to apply the new benefits under the 2011 Amendment.

*New Tax benefits under the 2017 Amendment that became effective on January 1, 2017.*

The 2017 Amendment was enacted as part of the Economic Efficiency Law that was published on December 29, 2016, and is effective as of January 1, 2017. The 2017 Amendment provides new tax benefits for two types of “Technology Enterprises”, as described below, and is in addition to the other existing tax beneficial programs under the Investment Law.

The 2017 Amendment provides that a technology company satisfying certain conditions will qualify as a Preferred Technology Enterprise and will thereby enjoy a reduced corporate tax rate of 12% on income that qualifies as “Preferred Technology Income”, as defined in the Investment Law. The tax rate is further reduced to 7.5% for a Preferred Technology Enterprise located in development zone A. These corporate tax rates shall apply only with respect to the portion of the Preferred Technology Income derived from R&D developed in Israel. In addition, a Preferred Technology Company will enjoy a reduced corporate tax rate of 12% on capital gain derived from the sale of certain “Benefitted Intangible Assets” (as defined in the Investment Law) to a related foreign company if the Benefitted Intangible Assets were acquired from a foreign company on or after January 1, 2017 for at least NIS 200 million, and the sale receives prior approval from the National Authority for Technological Authority (previously known as the Israeli Office of the Chief Scientist), referred to as the Innovation Authority.

The 2017 Amendment further provides that a technology company satisfying certain conditions will qualify as a “Special Preferred Technology Enterprise” and will thereby enjoy a reduced corporate tax rate of 6% on “Preferred Technology Income” regardless of the company’s geographic location within Israel. In addition, a Special Preferred Technology Enterprise will enjoy a reduced corporate tax rate of 6% on capital gain derived from the sale of certain “Benefitted Intangible Assets” to a related foreign company if the Benefitted Intangible Assets were either developed by the Special Preferred Technology Enterprise or acquired from a foreign company on or after January 1, 2017, and the sale received prior approval from the Innovation Authority. A Special Preferred Technology Enterprise that acquires Benefitted Intangible Assets from a foreign company for more than NIS 500 million will be eligible for these benefits for at least ten years, subject to certain approvals as specified in the Investment Law.

Dividends distributed by a Preferred Technology Enterprise or a Special Preferred Technology Enterprise, paid out of Preferred Technology Income, are generally subject to withholding tax at source at the rate of 20% or such lower rate as may be provided in an applicable tax treaty (subject to the receipt in advance of a valid certificate from the Israel Tax Authority allowing for a reduced tax rate). However, if such dividends are paid to an Israeli company, no tax is required to be withheld (although, if such dividends are subsequently distributed from such Israeli company to individuals or a non-Israeli company, withholding tax at a rate of 20% or such lower rate as may be provided in an applicable tax treaty will apply). If such dividends are distributed to a foreign parent company holding, solely or together with another foreign company, at least 90% of the shares of the distributing company and other conditions are met, the withholding tax rate will be 4% (or a lower rate under a tax treaty, if applicable, subject to the receipt in advance of a valid certificate from the Israel Tax Authority allowing for a reduced tax rate).

We believe that our Israeli subsidiary qualify as a Preferred Technology Enterprise, as it meets the relevant conditions, and therefore subject to a tax rate of 12%.

From time to time, the Israeli Government has discussed reducing the benefits available to companies under the Investment Law. The termination or substantial reduction of any of the benefits available under the Investment Law could materially increase our tax liabilities.

### **Foreign Tax Considerations**

On December 22, 2017, the U.S. enacted the Tax Cuts and Jobs Act of 2017, which among other provisions, reduced the U.S. corporate tax rate from 35% to 21%, effective January 1, 2018.

At December 31, 2017, we re-measured our U.S. deferred tax assets and liabilities, based on the new rates at which they are expected to reverse in the future. The tax expense recorded in 2017, related to the re-measurement of the deferred tax balance, was \$355,000.

### **B. Liquidity and Capital Resources**

As of December 31, 2019, we had approximately \$40.7 million in cash and cash equivalents, \$95.0 million in short term deposits and \$128.0 million in marketable securities, which, in the aggregate, total \$263.7 million. We fund our operations with cash generated from operating activities and cash raised via our equity financings, including our January 2017 and June 2019 follow-on offerings. In the past, we have also raised capital through the sale of equity securities to investors in private placements.

Our cash requirements have principally been for working capital, capital expenditures and acquisitions. Our working capital requirements reflect the growth in our business. Historically, we have funded our working capital requirements (primarily for inventory and accounts receivable) and capital expenditures from cash flows provided by our operating activities, investments in our equity securities and cash and cash equivalents on hand. We have funded our acquisitions from the proceeds of our April 2015 initial public offering and cash on hand. Our current capital expenditures relate primarily to our manufacturing facility for our ink and other consumables in Kiryat Gat, Israel. In addition to investments in this facility, our capital investments have included improvements and expansion of our worldwide locations and corporate facilities to support our growth and investment and improvements in our information technology.

The most significant elements of our working capital requirements are for inventory, accounts receivable and trade payables. We partially fund the procurement of the components of our systems that are assembled by our third-party manufacturers. Our inventory strategy includes maintaining inventory of systems and inks and other consumables at levels that we expect to sell during the successive months based on anticipated customer demand. Our accounts receivable increased in 2019 due to the increase in our revenues. Our trade payables increased in 2019 due to an increase in sales projected for 2020 compared to the projection for 2019.

As of December 31, 2019, we have two lines of credit with Israeli banks for total borrowings of up to \$3 million, all of which was undrawn as of December 31, 2019. These lines of credit are unsecured and available subject to: (i) our maintenance of a 30% ratio of total tangible shareholders' equity to total tangible assets; and (ii) the total credit use must be less than 70% of our and our subsidiaries' receivables. Interest rates across these credit lines varied from 0.2% to 2.3% as of December 31, 2019.

Based on our current business plans, we believe that our cash flows from operating activities and our existing cash resources will be sufficient to fund our projected cash requirements for at least the next 12 months without drawing on our lines of credit or using significant amounts of the net proceeds from our initial public offering or our follow-on offerings. Our future capital requirements will depend on many factors, including our rate of revenue growth, the timing and extent of spending to support product development efforts, the expansion of our sales and marketing activities, the timing of introductions of new solutions and the continuing market acceptance of our solutions, as well as other business development efforts.



The following table presents the major components of net cash flows for the periods presented:

	<b>Year Ended December 31,</b>		
	<b>2017</b>	<b>2018</b>	<b>2019</b>
	<b>(in thousands)</b>		
Net cash provided by operating activities	\$ 5,990	\$ 33,368	\$ 11,004
Net cash provided by (used in) investing activities	(46,744)	16,682	(179,497)
Net cash provided by financing activities	36,437	5,525	135,131

**Net Cash Provided by Operating Activities**

*Year Ended December 31, 2019*

Net cash provided by operating activities in the year ended December 31, 2019 was \$11.0 million.

Net cash provided by operating activities consisted of net income of \$10.2 million, as adjusted upwards in an amount of \$16.0 million for non-cash line items, including stock-based compensation expenses, depreciation, amortization of intangible assets, fair value of warrants deducted from revenues, amortization of premium on marketable securities, realized loss on sale of marketable securities and foreign currency translation gain on inter-company balances with foreign subsidiaries and other adjustments not included hereunder in an amount of \$1.6 million.

During 2019, our accounts receivable increased by \$18.6 million reflecting the increase in our revenues in 2019. DSO for the year ended December 31, 2019 increased to 82, compared to 56 for the year ended December 31, 2018.

During 2019, our inventory increased by \$7.4 million compared to the year ended December 31, 2018, out of which \$4.2 was attributed to cash operating activities. This was primarily due to our new product introduction and the need to maintain higher level of inventory to support increased install base and future business activities.

We also experienced an increase of \$6.0 million in trade payables in 2019 that mainly derived from an increase in the sales that we projected for 2020 compared to 2019, in line with the growth in our sales and operations.

*Year Ended December 31, 2018*

Net cash provided by operating activities in the year ended December 31, 2018 was \$33.4 million.

Net cash provided by operating activities consisted of net income of \$12.4 million, as adjusted upwards in an amount of \$16.3 million for non-cash line items, including stock-based compensation expenses, depreciation, amortization of intangible assets, fair value of warrants deducted from revenues, amortization of premium on marketable securities, realized loss on sale of marketable securities and foreign currency translation gain on inter-company balances with foreign subsidiaries, and adjustments for cash line items of \$4.7 million.

During 2018, our trade receivables decreased by \$1.1 million due to an improvement in collection during December 2018. DSO for the year ended December 31, 2018 was 56, compared to 74 for the year ended December 31, 2017.

During 2018, our inventory decreased by \$4.0 million relative to the year ended December 31, 2017. This was primarily due to an improvement in our sales and operations planning process.

We also experienced an increase of \$4.4 million in trade payables that mainly derived from an increase in the sales that we projected for 2019 compared to 2018, in line with the growth in our sales and operations.

In addition, we also had an increase in deferred taxes in 2018. For more information, please see “ITEM 5. Operating and Financial Review and Prospects— A. Operating Results— Comparison of Period to Period Results of Operations— Comparison of the Years Ended December 31, 2017 and 2018” in our Annual Report on Form 20-F for the year ended December 31, 2018, which we filed with the SEC on March 26, 2019.

*Year Ended December 31, 2017*

For a discussion of our cash flows provided by operating activities in the year ended December 31, 2017, please see “ITEM 5. Operating and Financial Review and Prospects— B. Liquidity and Capital Resources— Net Cash Provided by (Used in) Operating Activities—Year Ended December 31, 2017” in our Annual Report on Form 20-F for the year ended December 31, 2018, which we filed with the SEC on March 26, 2019.

#### ***Net Cash Provided by (Used in) Investing Activities***

Net cash used in investing activities was \$179.5 million for the year ended December 31, 2019, which was primarily attributable to our investment in marketable securities and bank deposits of \$205.5 million, purchase of property, plant and equipment of \$5.4 million and cash paid in connection with acquisition of \$4.7 million, offset, in part, by \$37.5 million of proceeds from the sale and maturity of marketable securities. Net cash provided by investing activities was \$16.7 million for the year ended December 31, 2018, which was primarily attributable to \$47.2 million of proceeds from the sale and maturity of marketable securities, offset, in part, by \$23.2 million of cash used for investment in short term bank deposits and marketable securities and \$7.3 million of cash used for purchase of property, plant and equipment. Net cash used in investing activities for the year ended December 31, 2017 was \$46.7 million which was primarily attributable to our investment in marketable securities and short term bank deposits.

#### ***Net Cash Provided by Financing Activities***

Net cash provided by financing activities was \$135.1 million for the year ended December 31, 2019, which was primarily attributable to our follow-on offering in June 2019, in which we raised \$129.7 million of net proceeds. Net cash provided by financing activities was \$5.5 million for the year ended December 31, 2018, which was attributable to the exercise of share options, partially offset by \$0.9 million of cash used for the payment of contingent consideration in connection with the acquisition of SPSI. Net cash provided by financing activities was \$36.4 million for the year ended December 31, 2017, which was primarily attributable to our follow-on offering in January 2017, in which we raised \$35.1 million of net proceeds.

#### **C. Research and development, patents and licenses, etc.**

For a description of our research and development programs and the amounts that we have incurred over the last three years pursuant to those programs, please see “ITEM 5. Operating and Financial Review and Prospects— A. Operating Results— Components of Statement of Operations— Operating Expenses— Research and Development Expenses” and “ITEM 5. Operating and Financial Review and Prospects— A. Operating Results— Comparison of Period to Period Results of Operations.”

#### **D. Trend Information**

Our results of operations and financial condition may be affected by various trends and factors discussed in “ITEM 3.D Risk Factors,” including “If the market for digital textile printing does not develop as we anticipate, our sales may not grow as quickly as expected and our share price could decline,” and in “ITEM 4.B Business Overview—Industry Overview.” Additional trends that could potentially impact our results of operations and financial condition include changes in political, military or economic conditions in Israel and in the Middle East, general slowing of local or global economies and decreased economic activity in one or more of our target markets.

## E. Off-Balance Sheet Arrangements

We do not currently engage in off-balance sheet financing arrangements. In addition, we do not have any interest in entities referred to as variable interest entities, which includes special purposes entities and other structured finance entities.

## F. Tabular Disclosure of Contractual Obligations

Our contractual obligations as of December 31, 2019 are summarized in the following table:

	Payments Due by Period						2025 and thereafter
	(in thousands)						
	Total	2020	2021	2022	2023	2024	
Operating lease obligations <sup>(1)</sup>	\$ 26,316	\$ 4,341	\$ 3,750	\$ 2,938	\$ 2,284	\$ 2,281	\$ 10,722
Uncertain tax positions <sup>(2)</sup>	3,039						-
Purchase commitments <sup>(3)</sup>	26,367						-
Severance payment <sup>(4)</sup>	1,035						-
<b>Total</b>	<b>\$ 56,757</b>	<b>\$ 4,341</b>	<b>\$ 3,750</b>	<b>\$ 2,938</b>	<b>\$ 2,284</b>	<b>\$ 2,281</b>	<b>\$ 10,722</b>

(1) Operating lease obligations consist of our contractual rental expenses under operating leases of facilities and vehicles.

(2) Consists of accruals for certain income tax positions under ASC 740 that are paid upon settlement, and for which we are unable to reasonably estimate the ultimate amount and timing of settlement. See Note 13(i) to our consolidated financial statements included in ITEM 18 of this annual report for further information regarding our liability under ASC 740. Payment of these obligations would result from settlements with tax authorities. Due to the difficulty in determining the timing of resolution of audits, these obligations are only presented in their total amount.

(3) Consists of all open purchase order, or PO, commitments through the end of 2021.

(4) Severance payments obligation of \$1.0 million are payable only upon termination, retirement or death of our employees. Of this amount, \$0.7 million is unfunded as of December 31, 2019. 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 2(x) to our consolidated financial statements appearing in "ITEM 18. Financial Statements" of this annual report.

## ITEM 6. Directors, Senior Management and Employees.

### A. Directors and Senior Management

The following table sets forth the name, age and position of each of our executive officers and directors as of the date of this annual report:

Name	Age	Position
<i>Executive Officers</i>		
Ronen Samuel	51	Chief Executive Officer and Director
Guy Avidan	57	Chief Financial Officer
Gilad Yron*	47	Executive Vice President of Global Business
Jecka Glasman	52	Chief Commercial Officer
Omer Kulka	43	Chief Marketing Officer
Kobi Mann	41	Chief Technology Officer
<i>Directors (who are not also executive officers)</i>		
Yuval Cohen	57	Chairman of the Board of Directors
Ofer Ben-Zur	55	Director
Lauri Hanover <sup>(1)(2)(3)</sup>	60	Director
Alon Lumbroso <sup>(3)</sup>	62	Director
Stephen Nigro <sup>(3)</sup>	60	Director
Yehoshua (Shuki) Nir <sup>(1)(2)(3)</sup>	50	Director
Dov Ofer <sup>(1)(2)(3)</sup>	66	Director
Gabi Seligsohn	53	Director

\* Mr. Yron will serve as SVP Global Business until March 31, 2020. Beginning on April 1, 2020, he will assist in connection with specific projects, until the end of his employment on August 31, 2020.

(1) Member of our audit committee.

(2) Member of our compensation committee.

(3) Independent director under the NASDAQ Stock Market rules.

## *Executive Officers*

*Ronen Samuel* has served as our Chief Executive Officer since August 2018 and as a director since August 2019. Prior to joining our company, Mr. Samuel served in various capacities at Hewlett-Packard, or HP, over the course of the previous 18 years. Most recently, he served as Vice President and General Manager of HP Indigo and WebPress EMEA. Prior to that, Mr. Samuel led HP's Asia Pacific and Japan region for seven years. He was also engaged in Strategic Marketing while at HP, working closely with Research and Development to define future products. While at HP, Mr. Samuel also served in various capacities as product/project manager. Prior to his career in printing technology, Mr. Samuel spent seven years in the Israeli Air Force, rising to the rank of major while serving as a fighter pilot and leading the establishment of Israel's second Apache Squadron. Mr. Samuel received an M.B.A. from Northwestern University's Kellogg School of Management and received an undergraduate Business and Law degree from The Interdisciplinary Center in Herzliya, Israel.

*Guy Avidan* has served as our Chief Financial Officer since September 2014. From July 2010 until November 2014, Mr. Avidan served as Vice President of Finance and Chief Financial Officer of AudioCodes Ltd. ("AudioCodes") (NASDAQ: AUDC). Prior to joining AudioCodes, Mr. Avidan served for 15 years in various managerial positions, including Co-President, at MRV Communications Inc. (NASDAQ: MRVC), a global provider of optical communications network infrastructure equipment and services. While at MRV Communications, he served as Chief Financial Officer between 2007 and 2009, Vice President and General Manager of MRV International from 2001 to 2007. From 1992 to 1995, Mr. Avidan served as Vice President of Finance and Chief Financial Officer of Ace North Hills, which was acquired by MRV Communications. Mr. Avidan is a CPA in Israel and holds a B.A. in Economics and Accounting from Haifa University in Israel.

*Gilad Yron* has served as our Executive Vice President of Global Business since May 2016 and will continue till March 31st, 2020. From April 1st, 2020 he will assist in connection with specific projects until the end of his employment on August 31, 2020. From February 2015 until April 2016, Mr. Yron served as Senior Vice President of Products at Stratasys, Ltd. (NASDAQ: SSYS). His previous positions with Stratasys included VP Business Development and strategic alliances and Managing Director of Asia Pacific and Japan operating out of Hong Kong. From 2006 until 2010, Mr. Yron served in various positions for Nur Macroprinters, which later became part of HP, including Business Manager for the Asia-Pacific region and Service Director. Mr. Yron holds a Bs.C. in Physics from Tel Aviv University in Israel.

*Jecka Glasman* has served as our Chief Commercial Officer since November 2019. Prior to joining our company, Ms. Glasman served as the US General Manager for SodaStream (NASDAQ: SODA) since December 2017. Prior to joining SodaStream, for 3 years since November 2014, Jecka was the President and CEO of Mitsubishi Fuso Trucks of America, A Daimler Trucks subsidiary of Daimler AG (ETR: DAI). Jecka began her career as an Officer in the Israel Defense Forces, followed by a decade in the Israeli Prime Minister's Office. She then joined Comverse Technology, a world leader in the telecom industry (NASDAQ: CMVT) where she spent over 10 years progressing from a Project Manager to various sales and operations leadership positions covering Central Europe and EMEA. Her last position at Comverse was Senior VP, Global Services Business Unit. Jecka holds an Executive MBA from Tel Aviv University, a BA in Computer Science and a BA in Economics and Business Administration from the Tel Aviv Jaffa Academic College, Israel.

*Omer Kulka* has served as our Chief Marketing Officer since July 2017. Omer joined Kornit in 2011 with years of extensive experience in the semiconductor industry, holding positions spanning R&D to Marketing and Business Management. Since joining Kornit he has held several managerial positions at the company including Director of the Wide-Format Division and Director of Product Marketing. Omer holds a BSc in Computer Science, a BA in Philosophy and an MA in History and Philosophy of Sciences and Ideas from Tel Aviv University.

*Kobi Mann* has served as our Chief Technology Officer since January 2020, prior to that he has held the position of VP Consumables & Application development since September 2017. Kobi Mann joined Kornit in 2004 as an R&D Chemist and has held core technology roles. As one of Kornit's founders he brings over 15 years of experience in the field of Inkjet Technology. Kobi has played a critical role in the design and the execution of core projects and processes in the company. During his tenure at Kornit, he has managed and led R&D Chemistry, technology groups, transfer to production, Print heads and QA as well as lead Kornit's Ink plant design. Prior to his executive, Kobi has held several managerial positions including Business Development of Consumables and Director of Global Application, an arena he established in Kornit. Kobi holds a B.Sc. Chemistry and Executive MBA – both from Bar Ilan University in Israel.

## **Directors**

*Yuval Cohen* has served as the Chairman of our board of directors since August 2011. Mr. Cohen is the founding and managing partner of Fortissimo Capital, a private equity fund established in 2004 and our former controlling shareholder. From 1997 through 2002, Mr. Cohen was a General Partner at Jerusalem Venture Partners (“JVP”), an Israeli-based venture capital fund. Prior to joining JVP, he held executive positions at various Silicon Valley companies, including DSP Group, Inc. (NASDAQ: DSPG), and Intel Corporation (NASDAQ: INTC). Currently, Mr. Cohen serves as a director of Wix.com Ltd. (NASDAQ: WIX). He also serves on the board of directors of several privately held portfolio companies of Fortissimo Capital. Mr. Cohen holds a B.Sc. in Industrial Engineering from Tel Aviv University in Israel and an M.B.A. from Harvard Business School in Massachusetts.

*Ofer Ben-Zur* is a co-founder of our company and has served as director since 2002. From April 2014 to July 2016, Mr. Ben-Zur served as our President and Chief Technology Officer. From 2002 to April 2014, Mr. Ben-Zur served as our Chief Executive Officer, as well as the manager of our department of research and development. Currently Mr. Ben-Zur serves as the CEO and founder of Tritone Technologies, an Israeli start up specializing in Additive Manufacturing of metals. Mr. Ben-Zur holds a B.Sc. in Mechanical Engineering from the Technion — Israel Institute of Technology in Israel, an M.Sc. in Mechanical Engineering from Tel Aviv University in Israel, and an M.B.A. from Bradford University in England.

*Lauri Hanover* has served as a member of our board of directors since March 2015 (until August 2019, as an external director under the Companies Law), and serves as the chairperson of our audit committee and a member of our compensation committee. Ms. Hanover has served as the Senior Vice President and Chief Financial Officer of Netafim Ltd., a global leader in smart irrigation systems, since August 2013. From 2009 to 2013, she served as Chief Financial Officer and Executive Vice President of the Tnuva Group, Israel's largest food manufacturer. From 2008 to 2009, Ms. Hanover served as Chief Executive Officer of Gross, Kleinhendler, Hodak, Halevy and Greenberg & Co., an Israeli law firm. From 2004 to 2007, she served as Chief Financial Officer and Senior Vice President of Lumenis Ltd. (NASDAQ: LMNS), a medical laser device company. From 2000 to 2004, Ms. Hanover served as the Chief Financial Officer and Corporate Vice President of NICE Systems Ltd. (NASDAQ: NICE), an interaction analytics company, and from 1997 to 2000, as Chief Financial Officer and Executive Vice President of Sapiens International Corporation N.V. (NASDAQ: SPNS), a provider of software solutions for the insurance industry. From 1981 to 2007, she served in a variety of financial management positions, including Corporate Controller and Director of Corporate Budgeting and Financial Analysis at Scitex Corporation Ltd., a developer and manufacturer of inkjet printers, and Senior Financial Analyst at Philip Morris Inc. (Altria), a leading consumer goods manufacturer. Ms. Hanover holds a B.A. from the University of Pennsylvania, a B.S. in Economics from The Wharton School of the University of Pennsylvania, as well as an M.B.A. from New York University.

*Alon Lumbroso* has served as a member of our Board since March 2015. Since June 2019, Mr. Lumbroso serves as the CEO of Cardo Systems Ltd. the world's leading communication devices for the motorcycle industry. Since June 2015 until August 2017, Mr. Lumbroso has been the chief executive of Dip-Tech Ltd. and from August 2017 until November 2018 served as Managing Director of Dip-Tech that became a subsidiary of Ferro (NYSE: FOE) a leading global functional coatings and color solutions. From 2011 to 2014, Mr. Lumbroso served as President of Mul-T-Lock Ltd., a subsidiary of ASSA ABLOY, a global supplier of locks and security solutions, as well as Market Region Manager of ASSA ABLOY. From 2005 to 2011, he served as Chief Executive Officer and director of Larotec Ltd., a developer and manufacturer of web-based end-to-end solutions. From 2000 to 2003, he served as Managing Director of Creo Europe (now CreoEMEA and formerly CreoScitex), a manufacturer and supplier of digital presses and printers. In addition, from 1998 to 2000, Mr. Lumbroso served as Managing Directors of Scitex and CreoScitex Asia Pacific, Hong Kong. Currently, he serves as a partner and director of iCar 2007 Ltd. Mr. Lumbroso holds a B.Sc. in Industrial Engineering from Tel Aviv University in Israel and an M.B.A. from Bar-Ilan University in Israel.

*Stephen Nigro* has served as a director of our company since August 2019, after having served as a strategic advisor to our company from April through August 2019. Mr. Nigro retired in early 2019 after 37 years at Hewlett-Packard, or HP, most recently serving as President of HP's 3D printing business, where he created and scaled a new technology and business, serving as a driving force towards HP's leadership in both the plastic and metal 3D printing markets. Mr. Nigro currently serves on the steering committee for the Oregon Business Council and is a Board member of iUrbanTeen, which promotes STEM education to underrepresented teens. Prior to heading HP's 3D printing business, Mr. Nigro served as Senior Vice President of HP Imaging and Printing Business, where he was responsible for leading HP's World Wide HP 2D printing business. Prior to that position, Mr. Nigro led the World Wide Inkjet and Graphics Business, which served the consumer, business, and Graphics segments, with both inkjet and LEP printing solutions. Mr. Nigro was involved in initiating several matters at HP, including: delivery of the first HP color inkjet solution to the market; setting up HP's Inkjet Supplies operation in Singapore; development of HP's first off-axis inkjet platform; HP's move into the low-end consumer printing market, delivering a new low-end inkjet platform; creation and scaling of the HP Graphics printing business; the connected printing strategy introducing big data and a new Instant Ink business model; and the creation of the HP 3D printing business. Mr. Nigro spent time at HP's locations in San Diego, California; Corvallis, Oregon; Singapore; Palo Alto; and Vancouver, Washington. Mr. Nigro holds a bachelor's degree in mechanical engineering from the University of California at Santa Barbara and a master's degree in electrical engineering from Stanford University.

*Yehoshua (Shuki) Nir* has served as a director of our company since July 2018 (until August 2019, as an external director under the Companies Law), and serves as the chairman of our compensation committee and a member of our audit committee. Since March 2017, Mr. Nir has served a director at EarlySense Ltd., a company that provides contact-free, continuous monitoring solutions for the medical and consumer digital health markets. From December 2012 to May 2016, Mr. Nir served as Senior Vice President, Corporate Marketing, and General Manager, Retail of Sandisk Corp., or Sandisk. From March 2008 to November 2012, Mr. Nir served as Senior Vice President and General Manager, Retail of Sandisk. From November 2006 through March 2008, he served in various other sales and marketing roles as a Vice President of Sandisk. Mr. Nir also served in various sales and marketing roles as a Vice President at msystems Ltd. from February 2003 until November 2006, when it was acquired by Sandisk. Prior to that, Mr. Nir held sales and marketing positions at Destinator Ltd. and also co-founded and served as Chief Executive Officer of MindEcho, Inc. Mr. Nir is a member of the board of directors of EarlySense Ltd., a company that provides contact-free, continuous monitoring solutions for the medical and consumer digital health markets. Mr. Nir has a B.A. in Law and Accounting and an M.B.A. from Tel Aviv University.

*Dov Ofer* has served as a member of our board of directors since March 2015 and is a member of our audit and compensation committees. From 2007 to 2013, Mr. Ofer served as Chief Executive Officer of Lumenis Ltd. (NASDAQ: LMNS), a medical laser device company. From 2005 to 2007, he served as Corporate Vice President and General Manager of HP Scitex (formerly a subsidiary of Scalex Corporation Ltd. (TASE: SCIX)), a producer of large format printing equipment. From 2002 to 2005, Mr. Ofer served as President and Chief Executive Officer of Scitex Vision Ltd. Prior to joining Scitex, Mr. Ofer held various managerial positions in the emerging Israeli high-tech sector and participated in different mergers and acquisitions within the industry. Currently, Mr. Ofer serves as chairman of Magen Eco-Energy RCA Ltd., vice chairman of Scodix Ltd. and director of Copprint and Stratasys Ltd. (Nasdaq: SSYS). He holds a B.A. in Economics from the Hebrew University in Israel as well as an M.B.A. from the University of California Berkeley in California.

*Gabi Seligsohn* has served as a member of our board of directors since March 2015. He also served as our Chief Executive Officer from April 2014 through July 2018. From August 2006 until August 2013, Mr. Seligsohn served as the President and Chief Executive Officer of Nova Measuring Instruments Ltd., (“Nova”) (NASDAQ: NVMI), a designer, developer and producer of optical metrology solutions. From 1998 until 2006, Mr. Seligsohn served in several key positions in Nova, including Executive Vice President of the Global Business Management Group from August 2005 to August 2006. From August 2002 until August 2005, he served as President of Nova’s U.S. subsidiary, Nova Measuring Instruments Inc. Additionally, prior to August 2002, Mr. Seligsohn was Vice President Strategic Business Development of Nova Measuring Instruments Inc. where he established Nova’s OEM group and managed the Applied Materials and Lam Research accounts between 2000 and 2002. From 1998 until 2000, he served as Global Strategic Account Manager for Nova’s five leading customers. Mr. Seligsohn joined Nova after serving two years as Sales Manager for key financial accounts at Digital Equipment Corporation. Currently, Mr. Seligsohn serves as a director of DSP Group Inc. (NASDAQ: DSPG). Mr. Seligsohn also serves as a Director on the Board of privately owned PubPlus, a company specializing in AI and machine learning for the purpose of collecting and attributing data points to scale profitable content across native and social channels. In 2010, he was voted Chief Executive Officer of the year by the Israeli Institute of Management for hi-tech industries in the large company category. He holds an LL.B. from the University of Reading in Reading, England.

**Arrangements Concerning Election of Directors; Family Relationships**

Our board of directors consists of nine directors. We are not a party to, and are not aware of, any voting agreements among our shareholders. In addition, there are no family relationships among our executive officers or senior management members.

**B. Compensation**

The aggregate compensation paid and equity-based compensation and other compensation expensed by us and our subsidiaries for our directors and executive officers with respect to the year ended December 31, 2019 was \$4.8 million. The foregoing sum includes approximately \$0.4 million set aside or accrued to provide pension, severance, retirement or similar benefits or expenses. The directors used in calculating that sum include our former directors Messrs. Eli Blatt and Marc Lesnick, who served from the start of 2018 through our annual shareholder meeting in August 2019, and our current director Mr. Stephen Nigro, who served from the date of his election at that August 2019 shareholder meeting through the end of 2019. As of December 31, 2019, options to purchase 249,001 ordinary shares and 134,483 restricted share units, or RSUs, granted to our directors and executive officers were outstanding under our share incentive plans, with a weighted average exercise price of \$19.8 per share for the options. Certain of our officers and directors receive a severance payment of up to four months’ of their base salary upon termination of their employment.

The following table presents the grant dates, number of options and RSUs, and related exercise prices and expiration dates of options and RSUs granted to our directors and executive officers for the year ended December 31, 2019:

<b>Grant Date</b>	<b>Number of Options</b>	<b>Number of RSUs</b>	<b>Exercise Price (per Share) of Options</b>	<b>Expiration Date of Options</b>
March 08, 2019		4,500		
August 01, 2019		13,167		
August 08, 2019		33,297		
August 22, 2019	100,000	23,446	\$ 28.15	August 22, 2029
November 19, 2019		8,000		

**Director Compensation**

Under the Companies Law, the compensation of our directors (including reimbursement of expenses) requires the approval of our compensation committee, the subsequent approval of the board of directors and, unless exempted under the regulations promulgated under the Companies Law, the approval of the shareholders at a general meeting as described in “C. Board Practices—Approval of Related Party Transactions under Israeli Law — Disclosure of Personal Interests of an Office Holder and Approval of Certain Transactions.” Where the director is also a controlling shareholder, the requirements for approval of transactions with controlling shareholders apply, as described below under “—Approval of Related Party Transactions under Israeli Law — Disclosure of Personal Interests of a Controlling Shareholder and Approval of Certain Transactions.”

Our directors are entitled to cash compensation as follows:

All of our non-employee directors receive annual fees and per-meeting fees for their service on our board and its committees as follows:

- annual fees in an amount of \$35,000, and \$41,000 for the chairman; and
- per-meeting fees in an amount of \$1,000, or \$500 for participation in meetings via phone.

In addition, commencing with our 2018 annual general meeting of shareholders, we provide for annual RSU grants to our non-employee directors. The number of RSUs granted to each director is linked to a fixed value— \$100,000, in the case of the Chairman of the Board, and \$80,000, in the case of all other non-employee directors. The actual number of RSUs to be granted each year with the foregoing \$100,000 and \$80,000 values is determined based on the closing price of our ordinary shares on the NASDAQ Global Select Market on the date of our annual shareholder meeting. Our RSU grant agreements for non-employee directors are subject to the following additional terms:

- the RSUs are granted to each non-employee director as of the date of the annual shareholder meeting and on the date of each annual general meeting thereafter;
- the RSUs vest in their entirety on the first anniversary of the grant, provided the director continues to serve as a director of our company at such anniversary;
- the RSUs, to the extent then unvested, become fully vested (a) immediately prior to the consummation of a Change of Control (as defined under our 2015 Plan (described below)) in which the director is required to resign from or is otherwise terminated from the service as a director, or (b) upon termination of service of such director occurring immediately after the consummation of a Change of Control; and
- the RSUs are otherwise subject to the terms of the 2015 Plan.

### **Executive Officer Compensation**

The table below outlines the compensation granted to our five most highly compensated office holders during or with respect to the year ended December 31, 2019, in the disclosure format of Regulation 21 of the Israeli Securities Regulations (Periodic and Immediate Reports), 1970. 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, and in accordance with the above-mentioned securities regulations, “compensation” includes base salary, variable compensation, equity-based compensation, retirement or termination payments, benefits and perquisites such as car, phone and social benefits and any undertaking to provide such compensation.

### **Summary Compensation Table**

#### **Information Regarding the Covered Executive<sup>(1)</sup>**

Name and Principal Position <sup>(2)</sup>	Base Salary (\$)	Benefits and Perquisites (\$) <sup>(3)</sup>	Variable compensation (\$) <sup>(4)</sup>	Equity-Based Compensation (\$) <sup>(5)</sup>	Total (\$)
	(in thousands, US dollars)				
Ronen Samuel, Chief Executive Officer	564	73	325	338	1,300
Guy Avidan, Chief Financial Officer	390	80	100	330	900
Gilad Yron, EVP Global Business	414	40	-	334	788
Haggai Abbo, VP Product Development	303	71	52	234	660
Amir Shaked, VP Corporate Development	330	62	68	179	639

(1) All amounts reported in the table are in terms of cost to us, as recorded in our financial statements.



- (2) All current executive officers listed in the table are our full-time employees. Cash compensation amounts denominated in currencies other than the U.S. dollar were converted into U.S. dollars at the average conversion rate for 2019.
- (3) 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 executive, payments, contributions and/or allocations for savings funds, pension, severance, vacation, car or car allowance, medical insurances and benefits, risk insurances (e.g., life, disability, accident), convalescence pay, payments for social security, tax gross-up payments and other benefits and perquisites consistent with our guidelines.
- (4) Amounts reported in this column refer to incentive and variable compensation payments which were paid or accrued with respect to 2019.
- (5) Amounts reported in this column represent the expense recorded in our financial statements for the year ended December 31, 2019 with respect to equity-based compensation. Assumptions and key variables used in the calculation of such amounts are described in paragraph (s) of Note 2 to our audited financial statements, which are included in "ITEM 18. Financial Statements" of this annual report.

#### **2004 Share Option Plan**

In May 2004 our board of directors adopted, and our shareholders approved our 2004 Share Option Plan, or the 2004 Plan. The 2004 Plan was amended on June 15, 2005. We no longer grant options under the 2004 Plan because it was superseded by the 2012 Plan, although previously granted awards remain outstanding. As of December 31, 2019, we had options to purchase 1,310 ordinary shares outstanding under the 2004 Plan.

The 2004 Plan provides for the grant of options to our and our subsidiaries' and affiliates' directors, employees and officers, who are expected to contribute to our future growth and success.

The 2004 Plan is administered by our board of directors or by a compensation committee appointed by the board of directors, which determines, subject to Israeli law, the grantees of awards and the terms of the grant, including, exercise prices, vesting schedules, acceleration of vesting and the other matters necessary in the administration of the 2004 Plan. The 2004 Plan enabled us to issue awards under various tax regimes, including, without limitation, pursuant to Section 102 of the Israeli Income Tax Ordinance (New Version) 1961, or the Ordinance.

Section 102 of the Ordinance allows employees, directors and officers, who are not controlling shareholders, to receive favorable tax treatment for compensation in the form of shares or options. Section 102 of the Ordinance includes two alternatives for tax treatment involving the issuance of options or shares to a trustee for the benefit of the grantees and also includes an additional alternative for the issuance of options or shares directly to the grantee. Section 102(b)(2) of the Ordinance, which provides the most favorable tax treatment for grantees, permits the issuance to a trustee under the "capital gain track." Note, however, that under Section 102(b)(3) of the Ordinance, if the company granting the shares or options is a publicly traded company or is listed for trading on any stock exchange within a period of 90 days from the date of grant, any difference between the exercise price of the Awards (if any) and the average closing price of the company's shares at the 30 trading days preceding the grant date (when the company is listed on a stock exchange) or 30 trading days following the listing of the company, as applicable, will be taxed as "ordinary income" at the grantee's marginal tax rate. In order to comply with the terms of the capital gain track, all securities granted under a specific plan and subject to the provisions of Section 102 of the Ordinance, as well as the shares issued upon exercise of such securities and other shares received following any realization of rights with respect to such securities, such as share dividends and share splits, must be registered in the name of a trustee selected by the board of directors and held in trust for the benefit of the relevant grantee. The trustee may not release these securities to the relevant grantee before 24 months from the date of grant and deposit of such securities with the trustee. However, under this track, we are not allowed to deduct an expense with respect to the issuance of the options or shares.

The vesting schedule of options granted under the 2004 Plan is set forth in each grantee's grant letter.

Options currently outstanding under the 2004 Plan may be exercised up to seven years from the grant date. In the event of the death of a grantee while employed or engaged by us, or the termination of a grantee's employment or services for reasons of disability or termination of a grantee's employment of services for reason of retirement in accordance with applicable law, the grantee, or in the case of death, his or her legal successor, may exercise options that have vested prior to termination until the earlier of: (i) a period of one year from the date of disability, retirement or death, or (ii) the term of the options. If we terminate a grantee's employment or service for cause, all of the grantee's vested and unvested options will expire on the date of termination. If a grantee's employment or service is terminated for any other reason, the grantee may generally exercise his or her vested options within the earlier of: (a) 90 days after the date of termination, or (b) the term of the options.

Options may not be sold, assigned, pledged or otherwise disposed of by the participant who holds such options, except by will or the laws of descent.

In the event of a merger or consolidation of our company, or a sale of all, or substantially all, of our shares or assets or other transaction having a similar effect on us, then without the consent of the option holder, our board of directors or its designated committee, as applicable, shall decide (i) if and how unvested options shall be canceled, replaced or accelerated, (ii) if and how vested options shall be exercised, replaced and/or sold by the trustee or the company on behalf of the option holder, and (iii) how the underlying shares issued upon exercise of options and held by the trustee on behalf of the option holder shall be replaced and/or sold by the trustee on behalf of the option holder.

### ***2012 Share Incentive Plan***

In October 2012, our board of directors adopted and our shareholders approved our 2012 Share Incentive Plan, or the 2012 Plan. The 2012 Plan replaced our 2004 Plan. We no longer grant options under the 2012 Plan because it was superseded by the 2015 Plan, although awards that were previously granted under the 2012 Plan remain outstanding. The 2012 Plan provides for the grant of options, restricted shares, restricted share units and other share-based awards to our and our subsidiaries' and affiliates' directors, employees, officers, consultants, advisors, and any other person whose services are considered valuable to us or our affiliates, to continue as service providers, to increase their efforts on our behalf or on behalf of our subsidiary or affiliate and to promote the success of our business. As of December 31, 2019, we had options to purchase 101,931 ordinary shares outstanding under the 2012 Plan.

The 2012 Plan is administered by our board of directors or by a committee designated by the board of directors, which determines, subject to Israeli law, the grantees of awards and the terms of the grant, including, exercise prices, vesting schedules, acceleration of vesting and the other matters necessary in the administration of the 2012 Plan. The 2012 Plan enables us to issue awards under various tax regimes, including, without limitation, pursuant to Section 102 of the Ordinance as discussed under "2004 Share Option Plan" above, and under Section 3(i) of the Ordinance and Section 422 of the United States Internal Revenue Code of 1986, as amended, or the Code.

The 2012 Plan provides that options granted to our employees, directors and officers who are not controlling shareholders and who are considered Israeli residents are intended to qualify for special tax treatment under the "capital gain track" provisions of Section 102(b) of the Ordinance. Our Israeli non-employee service providers and controlling shareholders may only be granted options under Section 3(i) of the Ordinance, which does not provide for similar tax benefits.

Options granted under the 2012 Plan to U.S. residents may qualify as "incentive stock options" within the meaning of Section 422 of the Code, or may be non-qualified. The exercise price for "incentive stock options" must not be less than the fair market value on the date on which an option is granted, or 110% of the fair market value if the option holder holds more than 10% of our share capital.

Options granted under the 2012 Plan generally vest over four years commencing on the date of grant, such that 50% vest on the second anniversary of the date of grant and an additional 25% vest at the end of each subsequent anniversary, provided that the participant remains continuously employed or engaged by us. In some cases, 25% vest on the first anniversary of the date of grant and an additional 6.25% vest at the end of each subsequent quarter, provided that the participant remains continuously employed by or engaged by us.

Options, other than certain incentive share options, that are not exercised within seven years from the grant date expire, unless otherwise determined by our board of directors or its designated committee, as applicable. Share options that qualify as “incentive stock options” and are granted to a person holding more than 10% of our voting power will expire within five years from the date of the grant. In the event of the death of a grantee while employed by or performing service for us or a subsidiary or within three months after the date of the employee’s termination, or the termination of a grantee’s employment or services for reasons of disability, the grantee, or in the case of death, his or her legal successor, may exercise options that have vested prior to termination within a period of one year from the date of disability or death. If a grantee’s employment or service is terminated by reason of retirement in accordance with applicable law, the grantee may exercise his or her vested options within the three-month period after the date of such retirement. If we terminate a grantee’s employment or service for cause, all of the grantee’s vested and unvested options will expire on the date of termination. If a grantee’s employment or service is terminated for any other reason, the grantee may generally exercise his or her vested options within 90 days of the date of termination. Any expired or unvested options return to the pool and become available for reissuance.

In the event of a merger or consolidation of our company, or a sale of all, or substantially all, of our shares or assets or other transaction having a similar effect on us, then without the consent of the option holder, our board of directors or its designated committee, as applicable, may but is not required to (i) cause any outstanding award to be assumed or an equivalent award to be substituted by such successor corporation, or (ii) in case the successor corporation does not assume or substitute the award (a) provide the grantee with the option to exercise the award as to all or part of the shares or (b) cancel the options and pay in cash an amount determined by the board of directors or the committee as fair in the circumstances. Notwithstanding the foregoing, our board of directors or its designated committee may upon such event amend, modify or terminate the terms of any award, including conferring the right to purchase any other security or asset that the board of directors or the committee shall deem, in good faith, appropriate.

### ***2015 Incentive Compensation Plan***

In March 2015, we adopted our 2015 Incentive Compensation Plan, or the 2015 Plan. The 2015 Plan provides for the grant of share options, share appreciation rights, restricted share awards, restricted share units, cash-based awards, other share-based awards and dividend equivalents to our company’s and our affiliates’ respective employees, non-employee directors and consultants. The reserved pool of shares under the 2015 Plan is the sum of (i) 661,745 shares; plus (ii) on January 1 of each calendar year during the term of the 2015 Plan, a number of shares equal to the least of: (x) 3% of the total number of shares outstanding on December 31 of the immediately preceding calendar year, (y) an amount determined by our board of directors, and (z) 1,965,930 shares. From and after the effective date of the 2015 Plan, no further grants or awards have been made under the 2012 Plan. Generally, shares that are forfeited, cancelled, terminated or expire unexercised, settled in cash in lieu of issuance of shares under the 2015 Plan or the 2012 Plan shall be available for issuance under new awards. Generally, any shares tendered or withheld to pay the exercise price, purchase price of an award, or any withholding taxes shall be available for issuance under new awards. Shares delivered pursuant to “substitute awards” (awards granted in assumption or substitution of awards granted by a company acquired by us) shall not reduce the shares available for issuance under the 2015 Plan.

As of December 31, 2019, we had options to purchase 969,536 ordinary shares and 677,593 unvested RSUs outstanding under the 2015 Plan. After adding the increase to the 2015 Plan that was effective on January 1, 2020, we had 3,269,482 ordinary shares reserved for additional grants.

Subject to applicable law, the 2015 Plan is administered by our compensation committee, which has full authority in all matters related to the discharge of its responsibilities and the exercise of its authority under the plan. Awards under the 2015 Plan may be granted until 10 years after the effective date of the 2015 Plan.

The terms of options granted under the 2015 Plan, including the exercise price, vesting provisions and the duration of an option, are determined by the compensation committee and set forth in an award agreement. Except as provided in the applicable award agreement, or in the discretion of the compensation committee, an option may be exercised only to the extent that it is then exercisable and shall terminate immediately upon a termination of service of the grantee.

Share appreciation rights, or SARs, are awards entitling a grantee to receive a payment representing the difference between the base price per share of the right and the fair market value of a share on the date of exercise. SARs may be granted in tandem with an option or independent and unrelated to an option. The terms of SARs granted under the 2015 Plan, including the base price per share, vesting provisions and the duration of an SAR, shall be determined by the compensation committee and set forth in an award agreement. Except as provided in the applicable award agreement, or in the discretion of the compensation committee, an SAR may be exercised only to the extent that it is then exercisable and shall terminate immediately upon a termination of service of the grantee. At the discretion of the compensation committee, SARs will be payable in cash, ordinary shares or equivalent value or some combination thereof.

Restricted share awards are ordinary shares that are awarded to a grantee subject to the satisfaction of the terms and conditions established by the compensation committee in the award agreement. Until such time as the applicable restrictions lapse, restricted shares are subject to forfeiture and may not be sold, assigned, pledged or otherwise disposed of by the grantee who holds those shares.

RSUs are awards covering a number of hypothetical units with respect to shares that are granted subject to such vesting and transfer restrictions and conditions of payment as the compensation committee may determine in an award agreement. RSUs, once vested, may be settled for the grantee in cash, ordinary shares of equivalent value, or a combination thereof.

The 2015 Plan provides for the grant of cash-based award and other share-based awards (which are equity-based or equity related award not otherwise described in the 2015 Plan). The terms of such cash-based awards or other share-based shall be determined by the compensation committee and set forth in the award agreement.

The compensation committee may grant dividend equivalents based on the dividends declared on shares that are subject to any award. Dividend equivalents may be subject to any limitations and/or restrictions determined by the compensation committee and shall be converted to cash or additional shares by such formula and at such time, and shall be paid at such times, as may be determined by the compensation committee.

In the event of any dividend (excluding any ordinary dividend) or other distribution, recapitalization, share split, reverse share split, reorganization, merger, consolidation, split-up, split-off, combination, repurchase or exchange of shares or similar event (including a change in control) that affects the ordinary shares, the compensation committee shall make any such adjustments in such manner as it may deem equitable, including any or all of the following: (i) adjusting the number of shares available for grant under the 2015 Plan, (ii) adjusting the terms of outstanding awards, (iii) providing for a substitution or assumption of awards and (iv) cancelling awards in exchange for a payment in cash. In the event of a change of control, each outstanding award shall be treated as the compensation committee determines, including, without limitation, (i) that each award be honored or assumed, or equivalent rights substituted therefor, by the new employer or (ii) that all unvested awards will terminate upon the change in control. Notwithstanding the foregoing, in the event that it is determined that neither (i) or (ii) in the preceding sentence will apply, all awards will become fully vested.

#### *2015 Israeli Sub Plan*

The 2015 Israeli Sub Plan provides for the grant by us of awards pursuant to Sections 102 and 3(i) of the Ordinance, and the rules and regulations promulgated thereunder. The 2015 Israeli Sub Plan is effective with respect to awards granted as of 30 days from the date we submitted it to the ITA. The 2015 Israeli Sub Plan provides for awards to be granted to those of our or our affiliates' employees, directors and officers who are not Controlling Shareholders, as defined in the Ordinance, and who are considered Israeli residents, to the extent that such awards either are (i) intended to qualify for special tax treatment under the "capital gains track" provisions of Section 102(b) of the Ordinance or (ii) not intended to qualify for such special tax treatment. The 2015 Israeli Sub Plan also provides for the grant of awards under Section 3(i) of the Ordinance to our Israeli non-employee service providers and Controlling Shareholders, who are not eligible for such special tax treatment.

The 2015 U.S. Sub Plan applies to grantees that are subject to U.S. federal income tax. The 2015 U.S. Sub Plan provides that options granted to the U.S. grantees will either be incentive stock options pursuant to Section 422 of the Code, or nonqualified stock options. Options, other than certain incentive stock options described below, must have an exercise price not less than 100% of the fair market value of an underlying share on the date of grant. Incentive stock options that are not exercised within 10 years from the grant date expire, provided that incentive stock options granted to a person holding more than 10% of our voting power will expire within five years from the date of the grant and must have an exercise price at least equal to 110% of the fair market value of an underlying share on the date of grant. The number of shares available under the 2015 Plan for grants of incentive stock options shall be the total number of shares available under the 2015 Plan subject to any limitations under the Code and provided that shares delivered pursuant to “substitute awards” shall reduce the shares available for issuance of incentive stock options under the 2015 Plan. It is the intention that no award shall be deferred compensation subject to Section 409A of the Code unless and to the extent that the compensation committee specifically determines otherwise. If the compensation committee determines an award will be subject to Section 409A of the Code such awards shall be intended to comply in all respects with Section 409A of the Code, and the 2015 Plan and the terms and conditions of such awards shall be interpreted and administered accordingly.

### **Employee Stock Purchase Plan**

We have adopted an employee stock purchase plan, or ESPP, pursuant to which our employees and employees of our subsidiaries may elect to have payroll deductions (or, when not allowed under local laws or regulations, another form of payment) made on each pay day during the offering period in an amount not exceeding 15% of the compensation which the employees receive on each pay day during the offering period. To date, we have not granted employees the right to make purchases under the plan. The number of shares initially reserved for purchase under the ESPP was 242,425 ordinary shares, which was to be automatically increased annually on January 1 by a number of ordinary shares equal to the least of (i) 1% of the total number of shares outstanding on December 31 of the immediately preceding calendar year, (ii) an amount determined by our board of directors, if so determined prior to January 1 of the year on which the increase will occur, and (iii) 655,310 shares.

The ESPP is administered by our board of directors or by a committee designated by the board of directors. Subject to those rights which are reserved to the board of directors or which require shareholder approval under Israeli law, our board of directors has designated the compensation committee to administer the ESPP. To the extent that we grant employees the right to make purchases under the ESPP, on the first day of each offering period, each participating employee will be granted an option to purchase on the exercise date of such offering period up to a number of the company’s ordinary shares determined by dividing (1) the employee’s payroll deductions accumulated prior to such exercise date and retained in the employee’s account as of the exercise date by (2) the applicable purchase price. The applicable purchase price is based on a discount percentage of up to 15%, which percentage may be decreased by the board or the compensation committee, multiplied by the lesser of (1) the fair market value of an ordinary share on the exercise date, or (2) the fair market value of an ordinary share on the offering date.

## **C. Board Practices**

### **Board of Directors**

Under the Companies Law, the management of our business is vested in our board of directors. Our board of directors may exercise all powers and may take all actions that are not specifically granted to our shareholders or to management. Our executive officers are responsible for our day-to-day management and have individual responsibilities established by our board of directors. Our Chief Executive Officer is appointed by, and serves at the discretion of, our board of directors, subject to the employment agreement that we have entered into with him. All other executive officers are also appointed by our board of directors and are subject to the terms of any applicable employment agreements that we may enter into with them.

Under our articles, our board of directors must consist of at least five and not more than nine directors, including, to the extent applicable, at least two external directors who may be required to be appointed under the Companies Law. Our board of directors currently consists of nine directors. Our directors are divided into three classes with staggered three-year terms. Each class of directors consists, as nearly as possible, of one-third of the total number of directors constituting the entire board of directors (other than the external directors, to the extent applicable). At each annual general meeting of our shareholders, the election or re-election of directors following the expiration of the term of office of the directors of that class of directors is for a term of office that expires on the third annual general meeting following such election or re-election, such that at each annual general meeting the term of office of only one class of directors expires. Each director will hold office until the annual general meeting of our shareholders in which his or her term expires, unless they are removed by a vote of 65% of the total voting power of our shareholders at a general meeting of our shareholders or upon the occurrence of certain events, in accordance with the Companies Law and our articles.

In August 2019, we elected to be governed by an exemption under the Companies Law regulations that exempts us from appointing external directors and from complying with the Companies Law requirements related to the composition of the audit committee and compensation committee of our board of directors. Our eligibility for that exemption is conditioned upon: (i) the continued listing of our ordinary shares on the NASDAQ Stock Market (or one of a few select other non-Israeli stock exchanges); (ii) there not being a controlling shareholder (generally understood in this context to be a 25% or greater shareholder) of our company under the Companies Law; and (iii) our compliance with the NASDAQ Listing Rules requirements as to the composition of (a) our board of directors—which requires that we maintain a majority of independent directors (as defined under the NASDAQ Listing Rules) on our board of directors and (b) the audit and compensation committees of our board of directors (which require that such committees consist solely of independent directors (at least three and two members, respectively), as described under the NASDAQ Listing Rules). At the time that it determined to exempt our company from the external director requirement, our board affirmatively determined that we meet the conditions for exemption from the external director requirement, including that a majority of the members of our board, along with each of the members of the audit and compensation committees of the board, are independent under the NASDAQ Listing Rules.

As a result of our election to be exempt from the external director requirement under the Companies Law, each of our directors (including our two directors who formerly served as external directors) is now assigned to one of the three, staggered classes of our board of directors, as follows:

- (i) the Class I directors are Alon Lumbroso, Dov Ofer and Yehoshua (Shuki) Nir, and, except for Mr. Nir, who is required to stand for reelection at the 2020 annual general meeting of shareholders (as described below), their terms expire at our annual general meeting of shareholders to be held in 2022 and when their successors are elected and qualified;
- (ii) the Class II directors are Ofer Ben-Zur, Gabi Seligsohn and Lauri Hanover and their terms expire at our annual general meeting of shareholders to be held in 2020 and when their successors are elected and qualified; and
- (iii) the Class III directors are Yuval Cohen, Stephen Nigro and Ronen Samuel, and their terms expire at our annual general meeting of shareholders to be held in 2021 and when their successors are elected and qualified.

Our board of directors has determined that five of our directors, Lauri Hanover, Alon Lumbroso, Stephen Nigro, Yehoshua (Shuki) Nir and Dov Ofer, constituting a majority of the members of the board, are independent under the rules of the NASDAQ Stock Market. The definition of independent director under the NASDAQ Stock Market rules specifies criteria whose aim is to ensure that there is no factor that would impair the ability of the independent director to exercise independent judgment, and furthermore requires that the board of directors affirmatively determine that the independent director can exercise independent judgment.

Under the Companies Law and our articles, besides nominees who are chosen by our board of directors, nominees for director may also be proposed by any shareholder holding at least 1% of our outstanding voting power. However, any such shareholder may propose a nominee only if a written notice of such shareholder's intent to propose a nominee has been given to our Secretary (or, if we have no such Secretary, our Chief Executive Officer) within seven days following our publication of notice of an upcoming annual shareholder meeting (or within 14 days after we publish a preliminary notification of an upcoming annual shareholder meeting). Any such shareholder nomination must include certain information, including, among other things, a description of all arrangements between the nominating shareholder and the proposed director nominee(s) and any other person pursuant to which the nomination(s) are to be made by the nominating shareholder, the consent of the proposed director nominee(s) to serve as our director(s) if elected and a declaration signed by the nominee(s) declaring that there is no limitation under the Companies Law preventing their election, and that all of the information that is required under the Companies Law to be provided to us in connection with such election has been provided.

In addition, our articles allow our board of directors to appoint directors to fill vacancies on our board of directors for a term of office equal to the remaining period of the term of office of the director(s) whose office(s) have been vacated. External directors—when we are subject to, or choose to be bound by, the requirement to elect them—are elected for an initial term of three years and may be elected for additional three-year terms under the circumstances described below.

Under the Companies Law, our board of directors must determine the minimum number of directors who are required to have accounting and financial expertise. In determining the number of directors required to have such expertise, our board of directors must consider, among other things, the type and size of the company and the scope and complexity of its operations. Our board of directors has determined that the minimum number of directors of our company who are required to have accounting and financial expertise is one.

### ***External Directors***

Under the Companies Law, the boards of directors of companies whose shares are publicly traded, including companies with shares traded in the United States, are generally required to include at least two members who qualify as external directors. Lauri Hanover and Yehoshua (Shuki) Nir had served as our external directors until our board elected, in August 2019, to be governed by the exemption from maintaining external directors on our board under the Companies Law (as described above).

Our election to exempt our company from compliance with the external director requirement can be reversed at any time by our board of directors, in which case we would need to hold a shareholder meeting to once again appoint external directors, whose election would be for a three-year term. The election of each external director would require approval by a majority vote of the shares present and voting at a meeting of shareholders, provided that either:

- such majority includes at least a majority of the shares held by all shareholders who are not controlling shareholders and who lack a personal interest in the election of the external director (other than a personal interest not deriving from a relationship with a controlling shareholder) that are voted at the meeting, excluding abstentions, to which we refer as a disinterested majority; or
- the total number of shares voted by non-controlling, disinterested shareholders and by shareholders (as described in the previous bullet point) against the election of the external director does not exceed 2% of the aggregate voting rights in the company.

The term “controlling shareholder” as used in the Companies Law for purposes of all matters related to external directors and for certain other purposes (such as the requirements related to appointment to the audit committee or compensation committee, as described below), means a shareholder with the ability to direct the activities of the company, other than by virtue of being an office holder. A shareholder is presumed to be a controlling shareholder if the shareholder holds 50% or more of the voting rights in a company or has the right to appoint the majority of the directors of the company or its general manager (chief executive officer).

For further information concerning the Companies Law provisions related to external directors, please see “ITEM 6. Directors, Senior Management and Employees - C. Board Practices - Board of Directors - External Directors” in our annual report on Form 20-F for the year ended December 31, 2018, which we filed with the SEC on March 26, 2019.

### ***Leadership Structure of the Board***

In accordance with the Companies Law and our articles, our board of directors is required to appoint one of its members to serve as chairman of the board of directors. Our board of directors has appointed Yuval Cohen to serve as chairman of the board of directors.

## **Board Committees**

### ***Audit Committee***

Our audit committee consists of three members: Lauri Hanover (Chairperson), Yehoshua (Shuki) Nir and Dov Ofer.

#### *Companies Law Requirements*

Under the Companies Law, we are required to appoint an audit committee. The audit committee must be comprised of at least three directors. To the extent a company is required to appoint external directors, this committee must include all of the external directors, one of whom must serve as chairman of the committee. There are additional requirements as to the composition of the audit committee under the Companies Law. However, when we elected to exempt our company from the external director requirement, we concurrently elected to exempt our company from all of such requirements (which exemption is conditioned on our fulfillment of all NASDAQ listing requirements related to the composition of the audit committee).

#### *NASDAQ Listing Requirements*

Under NASDAQ corporate governance rules, we are required to maintain an audit committee consisting of at least three independent directors, each of whom is financially literate and one of whom has accounting or related financial management expertise.

All members of our audit committee meet the requirements for financial literacy under the applicable rules and regulations of the SEC and NASDAQ corporate governance rules. Our board of directors has determined that Lauri Hanover qualifies as an audit committee financial expert, as defined by the SEC rules, and has the requisite financial experience, as defined by the NASDAQ corporate governance rules.

Each of the members of our audit committee is “independent” as such term is defined in Rule 10A-3(b)(1) under the Exchange Act and satisfies the independent director requirements under the NASDAQ Stock Market rules.

#### *Audit Committee Role*

Our board of directors has adopted an audit committee charter that sets forth the responsibilities of the audit committee consistent with the rules and regulations of the SEC and the listing requirements of the NASDAQ Stock Market, as well as the requirements for such committee under the Companies Law, including the following:

- oversight of our independent registered public accounting firm and recommending the engagement, compensation or termination of engagement of our independent registered public accounting firm to the board of directors in accordance with Israeli law;
- recommending the engagement or termination of the person filling the office of our internal auditor; and
- recommending the terms of audit and non-audit services provided by the independent registered public accounting firm for pre-approval by our board of directors.

Our audit committee provides assistance to our board of directors in fulfilling its legal and fiduciary obligations in matters involving our accounting, auditing, financial reporting, internal control and legal compliance functions by pre-approving the services performed by our independent accountants and reviewing their reports regarding our accounting practices and systems of internal control over financial reporting. Our audit committee also oversees the audit efforts of our independent accountants and takes those actions that it deems necessary to satisfy itself that the accountants are independent of management.



Under the Companies Law, our audit committee is responsible for:

- determining whether there are deficiencies in the business management practices of our company, including in consultation with our internal auditor or the independent auditor, and making recommendations to the board of directors to improve such practices;
- determining whether to approve certain related party transactions (including transactions in which an office holder has a personal interest and whether such transaction is material or extraordinary under the Companies Law) (see “—Approval of Related Party Transactions under Israeli Law”);
- establishing the approval process (including, potentially, the approval of the audit committee and conducting a competitive procedure supervised by the audit committee) for certain transactions with a controlling shareholder or in which a controlling shareholder has a personal interest;
- where the board of directors approves the working plan of the internal auditor, examining such working plan before its submission to the board of directors and proposing amendments thereto;
- examining our internal audit controls and internal auditor’s performance, including whether the internal auditor has sufficient resources and tools to fulfill his or her responsibilities;
- examining the scope of our auditor’s work and compensation and submitting a recommendation with respect thereto to our board of directors or shareholders, depending on which of them is considering the appointment of our auditor; and
- establishing procedures for the handling of employees’ complaints as to the management of our business and the protection to be provided to such employees.

#### ***Compensation Committee and Compensation Policy***

Our compensation committee consists of three members: Yehoshua (Shuki) Nir (Chairman), Lauri Hanover and Dov Ofer.

#### ***Companies Law Requirements***

Under the Companies Law, the board of directors of a public company must appoint a compensation committee. To the extent a company is required to appoint external directors, the compensation committee must be comprised of at least three directors, including all of the external directors, who must constitute a majority of the members of, and include the chairman of, the compensation committee. There are additional requirements as to the composition of the compensation committee under the Companies Law. However, when we elected to exempt our company from the external director requirement, we concurrently elected to exempt our company from all of such requirements (including the three-member minimum). Our exemption under the Companies Law is conditioned on our fulfillment of all NASDAQ listing requirements related to the composition of the compensation committee.

The duties of the compensation committee include the recommendation to the company’s board of directors of a policy regarding the terms of engagement of office holders, to which we refer as a compensation policy. That policy must be adopted by the company’s board of directors, after considering the recommendations of the compensation committee, and must be brought for approval by the company’s shareholders, which approval requires what we refer to as a Special Approval for Compensation. A Special Approval for Compensation requires shareholder approval by a majority vote of the shares present and voting at a meeting of shareholders called for such purpose, provided that either: (a) such majority includes at least a majority of the shares held by all shareholders who are not controlling shareholders and do not have a personal interest in such compensation arrangement; or (b) the total number of shares of non-controlling shareholders who do not have a personal interest in the compensation arrangement and who vote against the arrangement does not exceed 2% of the company’s aggregate voting rights.

The compensation policy must serve as the basis for decisions concerning the financial terms of employment or engagement of office holders, including exculpation, insurance, indemnification or any monetary payment, obligation of payment or other benefit in respect of employment or engagement. The compensation policy must relate to certain factors, including advancement of the company's objectives, the company's business plan and its long-term strategy, and creation of appropriate incentives for office holders. It must also consider, among other things, the company's risk management, size and the nature of its operations. The compensation policy must include certain principles, such as: a link between variable compensation and long-term performance and measurable criteria; the relationship between variable and fixed compensation; and the minimum holding or vesting period for variable, equity-based compensation.

The compensation committee is responsible for (a) recommending the compensation policy to a company's board of directors for its approval (and subsequent approval by its shareholders) and (b) duties related to the compensation policy and to the compensation of a company's office holders, as well as functions with respect to matters related to approval of the terms of engagement of office holders, including:

- recommending whether a compensation policy should continue in effect, if the then-current policy has a term of greater than three years or, in the case of the initial compensation policy of a company that has recently undergone its initial public offering, five years (approval of either a new compensation policy or the continuation of an existing compensation policy must in any case occur every three years or, upon the expiration of the initial period for a company that recently underwent its initial public offering, after five years);
- recommending to the board of directors periodic updates to the compensation policy and assessing implementation of the compensation policy;
- approving compensation terms of executive officers, directors and employees that require approval of the compensation committee;
- determining whether the compensation terms of a chief executive officer nominee, which were determined pursuant to the compensation policy, will be exempt from approval of the shareholders because such approval would harm the ability to engage with such nominee; and
- determining, subject to the approval of the board and under special circumstances, override a determination of the company's shareholders regarding certain compensation related issues.

Consistent with the foregoing requirements, following the recommendation of our compensation committee, our board and our shareholders approved our compensation policy in July 2015 and September 2015, respectively. We intend to call a shareholder meeting in the near future to present an updated compensation policy (following compensation committee recommendation and board approval) for the approval of our shareholders, as is required following the lapse of five years following our initial public offering. Following that approval, the compensation policy (in updated form, if applicable) will need to be recommended by the compensation committee and presented for the approval of the board and shareholders, every three years, in accordance with the requirements of the Companies Law.

#### *NASDAQ Listing Requirements*

Under NASDAQ corporate governance rules, we are required to maintain a compensation committee consisting of at least two independent directors. Each of the members of the compensation committee is required to be independent under NASDAQ rules relating to compensation committee members, which are different from the general test for independence of board and committee members. Each of the members of our compensation committee satisfies those requirements.

#### *Compensation Committee Role*

Our board of directors has adopted a compensation committee charter that sets forth the responsibilities of the compensation committee, which include:

- the responsibilities set forth in the compensation policy;

- reviewing and approving the granting of options and other incentive awards to the extent such authority is delegated by our board of directors; and
- reviewing, evaluating and making recommendations regarding the compensation and benefits for our non-employee directors.

### ***Compensation of Directors***

Under the Companies Law, compensation of directors requires the approval of a company's compensation committee, the subsequent approval of the board of directors and, unless exempted under the regulations promulgated under the Companies Law, the approval of the shareholders at a general meeting. Where the director is also a controlling shareholder, the requirements for approval of transactions with controlling shareholders apply, as described below under "Disclosure of Personal Interests of a Controlling Shareholder and Approval of Certain Transactions."

For information regarding the current compensation package that is paid to our non-employee directors, see "B. Compensation—Director Compensation" in this ITEM 6. Our directors are also entitled to be paid reasonable travel, hotel and other expenses expended by them in attending board meetings and performing their functions as directors of the company, all of which is to be determined by the board of directors.

External directors (when we are required to have them serving on our board of directors) are entitled to remuneration subject to the provisions and limitations set forth in the regulations promulgated under the Companies Law.

### ***Internal Auditor***

Under the Companies Law, the board of directors of an Israeli public company must appoint an internal auditor recommended by the audit committee. An internal auditor may not be:

- a person (or a relative of a person) who holds 5% or more of the company's outstanding shares or voting rights;
- a person (or a relative of a person) who has the power to appoint a director or the general manager of the company;
- an office holder (including a director) of the company (or a relative thereof); or
- a member of the company's independent auditor, or anyone on its behalf.

The role of the internal auditor is to examine, among other things, our compliance with applicable law and orderly business procedures. The audit committee is required to oversee the activities and to assess the performance of the internal auditor as well as to review the internal auditor's work plan. Irena Ben-Yakar of Brightman Almagor & Zohar (Deloitte) serves as our internal auditor.

### **Approval of Related Party Transactions Under Israeli Law**

#### ***Fiduciary Duties of Directors and Executive Officers***

The Companies Law codifies the fiduciary duties that office holders owe to a company. Each person listed in the table under "Directors and Senior Management" is an office holder of our company under the Companies Law.

An office holder's fiduciary duties consist of a duty of care and a duty of loyalty. The duty of care requires an office holder to act with the level of care with which a reasonable office holder in the same position would have acted under the same circumstances. The duty of loyalty requires that an office holder act in good faith and in the best interests of the company.

The duty of care includes a duty to use reasonable means to obtain:

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

The duty of loyalty includes a duty to:

- refrain from any conflict of interest between the performance of his or her duties to the company and his or her other duties or personal affairs;
- refrain from any activity that is competitive with the business of the company;
- refrain from exploiting any business opportunity of the company to receive a personal gain for himself or herself or others; and
- disclose to the company any information or documents relating to the company's affairs which the office holder received as a result of his or her position as an office holder.

### ***Disclosure of Personal Interests of an Office Holder and Approval of Certain Transactions***

The Companies Law requires that an office holder promptly disclose to the board of directors any conflict of interest (referred to under the Companies Law as a "personal interest") that he or she may be aware of and all related material information or documents concerning any existing or proposed transaction with the company. An interested office holder's disclosure must be made promptly and, in any event, no later than the first meeting of the board of directors at which the transaction is considered. A personal interest includes an interest of any person in an act or transaction of a company, including a personal interest of such person's relative or of a corporate body in which such person or a relative of such person is a 5% or greater shareholder, director or general manager (i.e., chief executive officer) or in which he or she has the right to appoint at least one director or the general manager, but excluding a personal interest stemming from one's ownership of shares in the company.

A personal interest furthermore includes the personal interest of a person for whom the office holder holds a voting proxy or the personal interest of the office holder with respect to his or her vote on behalf of a person for whom he or she holds a proxy even if such shareholder has no personal interest in the matter. An office holder is not, however, obliged to disclose a personal interest if it derives solely from the personal interest of his or her relative in a transaction that is not considered an extraordinary transaction. Under the Companies Law, an extraordinary transaction is defined as any of the following:

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

If it is determined that an office holder has a personal interest in a transaction which is not an extraordinary transaction, approval by the board of directors is required for the transaction, unless the company's articles of association provide for a different method of approval. Further, so long as an office holder has disclosed his or her personal interest in a transaction, the board of directors may approve an action by the office holder that would otherwise be deemed a breach of his or her duty of loyalty. However, a company may not approve a transaction or action that is not in the best interests of the company or that is not performed by the office holder in good faith. An extraordinary transaction in which an office holder has a personal interest requires approval first by the company's audit committee and subsequently by the board of directors. The compensation of, or an undertaking to indemnify or insure, an office holder who is not a director requires approval first by the company's compensation committee, then by the company's board of directors. If such compensation arrangement or an undertaking to indemnify or insure is inconsistent with the company's stated compensation policy, or if the office holder is the chief executive officer (apart from a number of specific exceptions), then such arrangement is further subject to a Special Approval for Compensation. Arrangements regarding the compensation, indemnification or insurance of a director require the approval of the compensation committee, board of directors and shareholders by ordinary majority, in that order, and under certain circumstances, a Special Approval for Compensation.

Generally, a person who has a personal interest in a matter which is considered at a meeting of the board of directors or the audit or compensation committees may not be present at such a meeting or vote on that matter unless the chairman of the relevant committee or board of directors (as applicable) determines that he or she should be present in order to present the transaction that is subject to approval. If a majority of the members of the board committee or the board of directors (as applicable) has a personal interest in the approval of a transaction, then all directors may participate in discussions of the committee or the board of directors (as applicable) on such transaction and the voting on approval thereof, but shareholder approval is also required for such transaction.

#### ***Disclosure of Personal Interests of Controlling Shareholders and Approval of Certain Transactions***

Pursuant to Israeli law, the disclosure requirements regarding personal interests that apply to directors and executive officers also apply to a controlling shareholder of a public company. The Companies Law provides a broader definition of a controlling shareholder solely with respect to the provisions pertaining to related party transactions. For such purposes, a controlling shareholder is a shareholder that has the ability to direct the activities of a company, including by holding 50% or more of the voting rights in a company or by having the right to appoint the majority of the directors of the company or its general manager (chief executive officer), and furthermore, by holding 25% or more of the voting rights if no other shareholder holds more than 50% of the voting rights. For this purpose, the holdings of all shareholders who have a personal interest in the same transaction will be aggregated. An extraordinary transaction between a public company and a controlling shareholder or in which a controlling shareholder has a personal interest and the terms of any compensation arrangement of a controlling shareholder who is an office holder or his relative, require the approval of a company's audit committee (or compensation committee with respect to compensation arrangements), board of directors and shareholders, in that order. In addition, the shareholder approval must fulfill one of the following requirements:

- at least a majority of the shares held by all shareholders who do not have a personal interest in the transaction and who are present and voting at the meeting approves the transaction, excluding abstentions; or
- the shares voted against the transaction by shareholders who have no personal interest in the transaction and who are present and voting at the meeting do not exceed 2% of the voting rights in the company.

To the extent that any such transaction with a controlling shareholder is for a period extending beyond three years, approval is required once every three years, unless, with respect to certain transactions, the audit committee determines that the duration of the transaction is reasonable given the circumstances related thereto.

Arrangements regarding the compensation, indemnification or insurance of a controlling shareholder in his or her capacity as an office holder require the approval of the compensation committee, board of directors and shareholders by a Special Majority, in that order, and the terms thereof may not be inconsistent with the company's stated compensation policy.

Pursuant to regulations promulgated under the Companies Law, certain transactions with a controlling shareholder or his or her relative, with directors, or with the chief executive officer, that would otherwise require approval of a company's shareholders may be exempt from shareholder approval upon certain determinations of the audit committee or compensation committee (as applicable), and the board of directors.

## **Shareholder Duties**

Pursuant to the Companies Law, a shareholder has a duty to act in good faith and in a customary manner toward the company and other shareholders and to refrain from abusing his or her power in the company, including, among other things, in voting at a general meeting and at shareholder class meetings with respect to the following matters:

- an amendment to the company's articles of association;
- an increase of the company's authorized share capital;
- a merger; or
- the approval of related party transactions and acts of office holders that require shareholder approval.

A shareholder also has a general duty to refrain from discriminating against other shareholders.

In addition, certain shareholders have a duty of fairness toward the company. These shareholders include any controlling shareholder, any shareholder who knows that he or she has the power to determine the outcome of a shareholder vote and any shareholder who has the power to appoint or to prevent the appointment of an office holder of the company or other power towards the company. The Companies Law does not define the substance of the duty of fairness, except to state that the remedies generally available upon a breach of contract will also apply in the event of a breach of the duty to act with fairness.

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

Under the Companies Law, a company may not exculpate an office holder from liability for a breach of the duty of loyalty. An Israeli company may exculpate an office holder in advance from liability to the company, in whole or in part, for damages caused to the company as a result of a breach of duty of care but only if a provision authorizing such exculpation is included in its articles of association. Our articles include such a provision. A company may not exculpate in advance a director from liability arising out of a prohibited dividend or distribution to shareholders.

Under the Companies Law, a company may indemnify an office holder in respect of the following liabilities and expenses incurred for acts performed by him or her as an office holder, either pursuant to an undertaking made in advance of an event or following an event, provided its articles of association include a provision authorizing such indemnification:

- financial liability imposed on him or her in favor of another person pursuant to a judgment, including a settlement or arbitrator's award approved by a court. However, if an undertaking to indemnify an office holder with respect to such liability is provided in advance, then such an undertaking must be limited to events which, in the opinion of the board of directors, can be foreseen based on the company's activities when the undertaking to indemnify is given, and to an amount or according to criteria determined by the board of directors as reasonable under the circumstances, and such undertaking shall detail the abovementioned foreseen events and amount or criteria;
- reasonable litigation expenses, including attorneys' fees, incurred by the office holder (1) as a result of an investigation or proceeding instituted against him or her by an authority authorized to conduct such investigation or proceeding, provided that (i) no indictment was filed against such office holder as a result of such investigation or proceeding, and (ii) no financial liability was imposed upon him or her as a substitute for the criminal proceeding as a result of such investigation or proceeding or, if such financial liability was imposed, it was imposed with respect to an offense that does not require proof of criminal intent; and (2) in connection with a monetary sanction; and
- reasonable litigation expenses, including attorneys' fees, incurred by the office holder or imposed by a court in proceedings instituted against him or her by the company, on its behalf, or by a third party, or in connection with criminal proceedings in which the office holder was acquitted, or as a result of a conviction for an offense that does not require proof of criminal intent.

Under the Companies Law, a company may insure an office holder against the following liabilities incurred for acts performed by him or her as an office holder, if and to the extent provided in the company's articles of association:

- a breach of the duty of loyalty to the company, provided that the office holder acted in good faith and had a reasonable basis to believe that the act would not harm the company;
- a breach of duty of care to the company or to a third party, to the extent such a breach arises out of the negligent conduct of the office holder; and
- a financial liability imposed on the office holder in favor of a third party.

Under the Companies Law, a company may not indemnify, exculpate or insure an office holder against any of the following:

- a breach of the duty of loyalty, except for indemnification and insurance for a breach of the duty of loyalty to the company to the extent that the office holder acted in good faith and had a reasonable basis to believe that the act would not harm the company;
- a breach of duty of care committed intentionally or recklessly, excluding a breach arising out of the negligent conduct of the office holder;
- an act or omission committed with intent to derive illegal personal benefit; or
- a fine or forfeit levied against the office holder.

Under the Companies Law, exculpation, indemnification and insurance of office holders in a public company must be approved by the compensation committee and the board of directors and, with respect to certain office holders or under certain circumstances, also by the shareholders. See "—Approval of Related Party Transactions under Israeli Law."

Our articles permit us to exculpate, indemnify and insure our office holders to the fullest extent permitted or to be permitted by the Companies Law.

We have obtained directors and officers liability insurance for the benefit of our office holders and intend to continue to maintain such coverage and pay all premiums thereunder to the fullest extent permitted by the Companies Law. In addition, we entered into agreements with each of our directors and executive officers exculpating them from liability to us for damages caused to us as a result of a breach of duty of care and undertaking to indemnify them, in each case, to the fullest extent permitted by our articles and the Companies Law, including with respect to liabilities resulting from a public offering of our shares, to the extent that these liabilities are not covered by insurance.

#### D. Employees

As of December 31, 2019, we had 547 employees and subcontractors, with 339 located in Israel, 96 in the United States, 68 in Europe and 44 in Asia Pacific. The following table shows the breakdown of our workforce of employees and subcontractors by category of activity as of the dates indicated:

Area of Activity	As of December 31,		
	2017	2018	2019
Service	66	79	101
Sales and marketing	87	98	131
Manufacturing and operations	73	83	103
Research and development	122	115	128
General and administrative	64	69	84
Total	412	444	547

With respect to our Israeli employees, Israeli labor laws govern the length of the workday and workweek, minimum wages for employees, procedures for hiring and dismissing employees, determination of severance pay, annual leave, sick days, advance notice of termination of employment, payments to the National Insurance Institute, equal opportunity and anti-discrimination laws and other conditions of employment. While none of our employees is party to any collective bargaining agreements, 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' Associations) are applicable to our employees in Israel by order of the Israeli Ministry of the Economy and Industry. These provisions primarily concern pension fund benefits for all employees, insurance for work-related accidents, recuperation pay and travel expenses. We generally provide our employees with benefits and working conditions beyond the required minimums. With respect to our German employees, German and European labor laws govern the common employment terms including worktime, annual leave and employment termination. In addition to that our Kornit Digital Europe GmbH have a work council. Work council must be consulted about specific employee related issues and has the right to make proposals to management according to the German Works Constitution Act (BetrVG).

We have never experienced any labor-related work stoppages or strikes and believe our relationships with our employees are good.

#### **E. Share Ownership**

For information regarding the share ownership of our directors and executive officers, please refer to "ITEM 6.B. Compensation" and "ITEM 7.A. Major Shareholders."

### **ITEM 7. Major Shareholders and Related Party Transactions.**

#### **A. Major Shareholders**

The following table sets forth information with respect to the beneficial ownership of our ordinary shares as of February 28, 2020:

- each person or entity known by us to own beneficially 5% or more of our outstanding ordinary shares;
- each of our directors and executive officers individually; and
- all of our executive officers and directors as a group.

The beneficial ownership of our ordinary shares is determined in accordance with the rules of the SEC and generally includes any ordinary shares over which a person exercises sole or shared voting or investment power, or the right to receive the economic benefit of ownership. For purposes of the table below, we deem ordinary shares issuable pursuant to options that are currently exercisable or exercisable within 60 days of February 28, 2019 to be outstanding and to be beneficially owned by the person holding the options for the purposes of computing the percentage ownership of that person, but we do not treat them as outstanding for the purpose of computing the percentage ownership of any other person. Except where otherwise indicated, we believe, based on information furnished to us by such owners, that the beneficial owners of the ordinary shares listed below have sole investment and voting power with respect to such shares. The number of record holders in the United States is not representative of the number of beneficial holders nor is it representative of where such beneficial holders are resident since many of these ordinary shares were held by brokers or other nominees.

Unless otherwise noted below, each shareholder's address is c/o Kornit Digital Ltd., 12 Ha'Amal Street, Rosh -Ha'Ayin 4809246, Israel.

A description of any material relationship that our principal shareholders have had with us or any of our predecessors or affiliates within the past three years is included under "Certain Relationships and Related Party Transactions."



The percentages set forth below are based on 40,801,834 ordinary shares outstanding as of February 28, 2020.

Except where otherwise indicated, we believe, based on information furnished to us by such owners, that the beneficial owners of the ordinary shares listed below have sole investment and voting power with respect to such shares. All of our shareholders, including the shareholders listed below, have the same voting rights attached to their ordinary shares. See “ITEM 10.B Articles of Association.”

A description of any material relationship that our major shareholders have had with us or any of our predecessors or affiliates within the past year is included under “ITEM 7.B—Related Party Transactions.

Name	Number of Shares Beneficially Held	Percent
<b>5% or Greater Shareholders</b>		
Wasatch Advisors Inc. <sup>(1)</sup>	3,559,402	8.7%
American Capital Management Inc. <sup>(2)</sup>	2,545,892	6.2%
Clal Insurance Enterprises Holdings Ltd. <sup>(3)</sup>	2,294,938	5.6%
<b>Directors and Executive Officers</b>		
Yuval Cohen	*	*
Ofer Ben-Zur	*	*
Lauri Hanover	*	*
Alon Lumbroso	*	*
Stephen Nigro	*	*
Yehushua (Shuki) Nir	*	*
Dov Ofer	*	*
Gabi Seligsohn	*	*
Ronen Samuel	*	*
Guy Avidan	*	-
Gilad Yron	*	*
Omer Kulka	*	*
Kobi Mann	*	*
Jecka Glasman	*	*
<b>All Directors and Executive Officers as a Group (14 persons)</b>	*(4)	*

\* Represents beneficial ownership of less than 1% of our outstanding ordinary shares.

(1) As of December 31, 2019, based on a beneficial ownership statement on Schedule 13G filed by Wasatch Advisors Inc. with the SEC on February 10, 2020.

(2) As of December 31, 2019, based on an amendment to Schedule 13G amendment filed by American Capital Management Inc. with the SEC on February 20, 2020.

(3) As of December 31, 2019, based on an amendment to Schedule 13G filed by Clal Insurance Enterprises Holdings Ltd., or Clal, with the SEC on February 10, 2020. All of the ordinary shares reported as beneficially owned by Clal are held for members of the public through, among others, provident funds and/or pension funds and/or insurance policies, which are managed by subsidiaries of Clal, which subsidiaries operate under independent management and make independent voting and investment decisions. Consequently, Clal does not admit beneficial ownership of any of those shares.

(4) Consists of ordinary shares, options to purchase ordinary shares and RSUs that may be exercised or settled (as applicable) within 60 days of February 28, 2020.

### *Recent Significant Changes in the Percentage Ownership of Major Shareholders*

In January 2017, Fortissimo Capital (our former controlling shareholder) sold 6,235,000 of our ordinary shares in a secondary public offering, which decreased its holdings in our company from 48.5% to 26.3% (after taking into account the increase in outstanding shares resulting from our concurrent follow-on offering). In May 2017, Fortissimo Capital sold 4,250,000 of our ordinary shares in a secondary public offering, which decreased its holdings in our Company to 4,552,481 ordinary shares, or 13.5% of our outstanding ordinary shares. Over the course of 2018, Fortissimo Capital sold additional ordinary shares, thereby reducing its beneficial ownership further, and in December 2018, Fortissimo Capital sold all remaining 3,132,481 ordinary shares held by it in a secondary public offering.

In January and February 2018, several shareholders reported that they had acquired in excess of 5% of our outstanding shares over the course of 2017, including: Senvest Management, LLC (5.0%); American Capital Management, Inc. (7.3%); Granahan Investment Management, Inc. (6.9%); William Blair & Company, LLC (7.3%); and Gilder, Gagnon, Howe & Co. LLC (5.2%). In addition, in April 2018, Clal reported that it had acquired 5.0% of our outstanding ordinary shares.

In February 2019, each of Senvest Management, LLC, William Blair & Company, LLC and Gilder, Gagnon, Howe & Co. LLC reported that it had ceased to be a 5% shareholder as of the end of 2018, having dropped to beneficial ownership of 1.5%, 3.9% and 3.2%, respectively, as of that time. In February 2019, each of Granahan Investment Management, Inc. and Clal reported changes in its beneficial ownership as of the end of 2018, to 5.2% and 7.5%, respectively, of our outstanding ordinary shares.

In February 2020, each of Granahan Investment Management, Inc. and Clal reported changes in its beneficial ownership as of the end of 2019, to 3.0% and 5.6%, respectively, of our outstanding ordinary shares. Consequently, Granahan Investment Management, Inc. ceased to be a 5% shareholder as of the end of 2019. In addition, Wasatch Advisors Inc. reported that it held in excess of 5% of our outstanding shares as of the end of 2019, holding 8.7% as of that time.

The beneficial ownership of our ordinary shares by American Capital Management Inc. has gone from 7.5% as of the end of 2017 to 8.1% as of the end of 2018 and to 6.2% as of the end of 2019.

Other than the foregoing, there have been no recent significant changes in the percentage ownership of major shareholders.

### **Record Holders**

Based upon a review of the information provided to us by our transfer agent, as of March 11, 2020, there were three holders of record of our ordinary shares, of which one record holder, holding approximately 99.88% of our outstanding ordinary shares, had a registered address in the United States. These numbers are not representative of the number of beneficial holders of our shares, nor is it representative of where such beneficial holders reside, since all of these shares held of record in the United States were held through CEDE & Co., the nominee company of the Depository Trust Company, on behalf of hundreds of firms of brokers and banks in the United States, who in turn held such shares on behalf of several thousand clients and customers.

### **B. Related Party Transactions**

Our policy is to enter into transactions with related parties on terms that, on the whole, are no more favorable, or no less favorable than those available from unaffiliated third parties. Based on our experience in the business sectors in which we operate and the terms of our transactions with unaffiliated third parties, we believe that all of the transactions described below met this policy standard at the time they occurred. The following is a description of material transactions, or series of related material transactions, since January 1, 2019, to which we were or will be a party and in which the other parties included or will include our directors, executive officers, holders of more than 10% of our voting securities or any member of the immediate family of any of the foregoing persons.

## **Agreements and Arrangements with, and Compensation of, Directors and Executive Officers**

### ***Employment Agreements***

We have entered into written employment agreements with each of our executive officers. These agreements provide for notice periods of varying duration for termination of the agreement by us or by the relevant executive officer, during which time the executive officer will continue to receive base salary and benefits (except for the accrual of vacation days). These agreements also contain customary provisions regarding non-competition, confidentiality of information and assignment of inventions. However, the enforceability of the non-competition provisions may be limited under applicable law.

### ***Options and RSUs***

Since our inception we have granted options to purchase our ordinary shares to our officers and certain of our directors, and, commencing in 2018 (following approval by our shareholders), we began awarding annual RSU grants to our non-employee directors. Our option agreements may contain, and the terms of our RSU grants do contain, acceleration provisions upon certain merger, acquisition, or change of control transactions (in the case of the RSU grants, upon termination of, or resignation by, a non-employee director in connection with any such transaction or immediately thereafter). We describe our equity incentive plans under “ITEM 6.B. Compensation”. If the relationship between us and an executive officer or a director is terminated, except for cause (as defined in the option plans), all options that are vested will generally remain exercisable for ninety days after such termination.

### ***Indemnification Agreements***

Our articles permit us to exculpate, indemnify and insure each of our directors and office holders to the fullest extent permitted by Israeli law. We have entered into indemnification agreements with each of our directors and executive officers, undertaking to indemnify them to the fullest extent permitted by Israeli law, including with respect to liabilities resulting from a public offering of our shares, to the extent that these liabilities are not covered by insurance. We have also obtained Directors and Officers insurance for each of our executive officers and directors. For further information, see “ITEM 6.C Board Practices—Exculpation, Insurance and Indemnification of Directors and Officers.”

### C. Interests of Experts and Counsel

Not applicable.

## ITEM 8. Financial Information.

### A. Statements and Other Financial Information

We have appended our financial statements at the end of this annual report, starting at page F-1, as part of this annual report.

### Legal Proceedings

From time to time, we may become party to litigation or other legal proceedings that we consider to be a part of the ordinary course of our business. Currently, and in the recent past, we are not and have not been a party to any legal proceedings, nor are there any legal proceedings (including governmental proceedings) pending or, to our knowledge, threatened against us, that our management believes, individually or in the aggregate, would have a significant effect on our financial position or profitability. We intend to defend against any claims to which we may become subject, and to proceed with any claims that we may need to assert against third parties, in a vigorous fashion.

### Dividend Distribution Policy

We have never declared or paid any cash dividends on our ordinary shares. We do not anticipate paying any dividends in the foreseeable future. We currently intend (subject to any extraordinary market conditions that might arise) to retain future earnings, if any, to finance operations and expand our business. To the extent that volatile or depressed market conditions (whether in the wake of the coronavirus outbreak or otherwise) reduce the trading price of our ordinary shares substantially for an extended period of time, we may potentially consider using a portion of our cash reserves toward share repurchases. Our board of directors has sole discretion whether to pay dividends (or to effect share repurchases). If our board of directors decides to pay dividends, the form, frequency and amount will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that our directors may deem relevant. See “ITEM 3.D. Risk Factors— Risks Related to Our Ordinary Shares— We have never paid cash dividends on our share capital, and we do not anticipate paying any cash dividends in the foreseeable future” and “ITEM 10.B Articles of Association— Dividend and Liquidation Rights” for an explanation concerning the payment of dividends under Israeli law.

### B. Significant Changes

Since the date of our financial statements included in ITEM 18 of this annual report, there has not been a significant change in our company other than as described elsewhere in this annual report.

## ITEM 9. The Offer and Listing.

### A. Listing details

Our ordinary shares have been quoted on the NASDAQ Global Select Market under the symbol “KRNT” since April 2, 2015. Prior to that date, there was no public trading market for our ordinary shares. Our IPO was priced at \$10.00 per share on April 2, 2015.

On March 18, 2020, the closing sales price of our ordinary shares on the NASDAQ Global Select Market was \$26.36.

### B. Plan of Distribution

Not applicable.

**C. Markets**

See “—Listing Details” above.

**D. Selling Shareholders**

Not applicable.

**E. Dilution**

Not applicable.

**F. Expenses of the Issue**

Not applicable.

**ITEM 10. ADDITIONAL INFORMATION**

**A. Share Capital**

Not applicable.

**B. Articles of Association**

The information called for by this Item 10.B of Form 20-F has been provided in Exhibit 2.2 to this annual report. The content of Exhibit 2.2 is incorporated by reference herein.

**C. Material Contracts**

We are not party to any material contract within the two years prior to the date of this annual report, other than contracts entered into in the ordinary course of business, or as otherwise described below in this ITEM 10.C.

**Agreements with Amazon**

***Master Purchase Agreement***

On January 10, 2017, we entered into a Master Purchase Agreement, or the Purchase Agreement, with Amazon Corporate LLC, a subsidiary of Amazon.com, Inc., or Amazon. Under the Purchase Agreement, as amended in March 2017, January 2018, and June 2018, Amazon may purchase, and we have committed to supply AVHD6 digital direct-to-garment printers and NeoPigment ink and other consumables at agreed upon prices which are subject to volume. We also agreed to provide maintenance services and extended warranties to Amazon at agreed-upon prices.

The Purchase Agreement provides for an “end of life” program. We are required to notify Amazon 12 months in advance if it intends to stop supporting one of the products or services supplied by us and to continue to manufacture the product or provide such service during the applicable period. Subject to certain exceptions, we are required to continue to supply ink in such quantities as Amazon requires for at least 36 months after the earlier of (1) the end of the term of the Purchase Agreement or (2) 18 months following the purchase of the last product sold pursuant to the Purchase Agreement. The Purchase Agreement requires us to make arrangements to ensure continuity of our supply of products if we do not comply with its requirements to supply the products or the services under the agreement or becomes insolvent. The Purchase Agreement also provides for penalties on a sliding scale in the case of late delivery or if our systems are unavailable for certain specific periods. There are no minimum spending commitments under the Purchase Agreement. The term of the Purchase Agreement is five years beginning on May 1, 2016 and extends automatically for additional one-year periods unless terminated by Amazon.

## **Transaction Agreement and Warrant**

Concurrently with the Purchase Agreement, we and Amazon entered into a Transaction Agreement, or the Transaction Agreement, pursuant to which we agreed to issue to an affiliate of Amazon a warrant, or the Warrant, to acquire up to 2,932,176 of our ordinary shares, or the Warrant Shares, at a purchase price of \$13.03 per share, which is based on the preceding 30 trading day VWAP prior to the execution of the Transaction Agreement. The Warrant also provides for cashless exercise.

Under the terms of the Warrant, the Warrant Shares are subject to vesting as a function of payments for purchased products and services of up to \$150 million over a five-year period, with the shares vesting incrementally each time Amazon (which includes its affiliates for purposes of the vesting determination) makes a payment totaling \$5 million to us. Warrant Shares vest in increments of 85,521 shares until such time as Amazon has paid an aggregate of \$75 million to us and thereafter the remaining Warrant Shares vest in additional increments of 109,956 shares each. Based on payments made by Amazon prior to the date of the Warrant, some of the Warrant Shares vested at the time of the execution of the Purchase Agreement. As of December 31, 2019, warrants to purchase 1,612,683 ordinary shares have vested and are exercisable.

The Warrant is exercisable through January 10, 2022. Upon the consummation of a change of control transaction (as defined in the Warrant), subject to certain exceptions, the unvested portion of the Warrant will vest in full and become fully exercisable.

The exercise price and the number of Warrant Shares issuable upon exercise of the Warrant are subject to customary anti-dilution adjustments.

The Transaction Agreement includes customary representations, warranties and covenants of our company and Amazon. The Transaction Agreement restricts any transfer of the Warrant except to a wholly owned subsidiary of Amazon and contains certain restrictions on Amazon's ability to transfer the Warrant Shares, including to a beneficial owner of more than 5% of our outstanding ordinary shares, subject to customary exceptions. The Transaction Agreement also contains certain customary standstill restrictions with respect to an acquisition of our shares (other than an acquisition of the Warrant Shares), solicitation of proxies and other actions that seek to influence the control of our company. These standstill restrictions remain in effect until such time as the Warrant Shares held by Amazon or that remain unexercised under the Warrant represent less than 2% of our outstanding shares.

Under the Transaction Agreement, Amazon is entitled to certain registration rights. Amazon may request up to two times in any 12-month period that we file a shelf registration statement on Form F-3 or S-3, and we are required to keep the shelf registration effective for four 90-day periods. If we are ineligible to file a registration statement on Form F-3 or Form S-3, Amazon may request up to four times that we file a long form registration statement to facilitate the sale of its shares. In addition, at any time after the one year anniversary of the Transaction Agreement, Amazon is entitled to piggyback registration rights on underwritten offerings effected by us. We are subject to customary obligations upon Amazon's request for registration, including cooperation in case of an underwritten offering.

### **Underwriting Agreement for December 2018 Secondary Offering**

We entered into an underwriting agreement, dated December 3, 2018, with Fortissimo Capital, as the selling shareholder, and Barclays Capital Inc. and Citigroup Global Markets Inc., as representatives of the underwriters, for the underwritten secondary public offering of 3,132,481 of our ordinary shares sold by Fortissimo Capital. Fortissimo Capital received approximately \$62.6 million of net proceeds, before expenses, from that secondary public offering. We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act, and to contribute to payments the underwriters may be required to make in respect of such liabilities.

### **Underwriting Agreement for June 2019 Follow-On Offering**

We entered into an underwriting agreement, dated June 13, 2019, with Citigroup Global Markets Inc., Goldman Sachs & Co. LLC and Barclays Capital Inc., as representatives of the several underwriters named therein, for the underwritten primary follow-on offering, by the underwriters, of 4,340,000 of our ordinary shares, plus an additional 651,000 ordinary shares pursuant to a 30-day option granted to the underwriters by our company that was exercised at the closing of the offering. We received \$129.7 million of net proceeds from the offering, after deducting underwriting discounts and commissions and estimated offering expenses payable by us. We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act, and to contribute to payments the underwriters may be required to make in respect of such liabilities.

## Other Material Contracts

Material Contract	Location of Description in This Annual Report
Agreements and arrangements with, and compensation of, directors and executive officers	"ITEM 7.B. Related Party Transactions—Agreements and arrangements with, and compensation of, directors and executive officers."
Kornit Digital Compensation Policy	"ITEM 6.C. Board Practices-Board Committees-Compensation Committee and Compensation Policy."
OEM Supply Agreement, dated December 3, 2015, between us and FujiFilm Dimatix, Inc.	"ITEM 3.D. Risk Factors— Risks Related to Our Business and Our Industry— Risk factor titled "If our relationships with suppliers..."
Manufacturing Services Agreement, dated as of May 2015, between us and Flextronics (Israel) Ltd.	"ITEM 3.D. Risk Factors— Risks Related to Our Business and Our Industry— Risk factor titled "If our relationships with suppliers..."
Manufacturing Services Agreement, dated as of February 26, 2019, between us and Sanmina-SCI Israel Medical Systems Ltd.	"ITEM 3.D. Risk Factors— Risks Related to Our Business and Our Industry— Risk factor titled "If our relationships with suppliers..."
Office and Parking Space Lease Agreement, dated as of December 17, 2007 between us and Industrial Building Corporation, as amended	"ITEM 4.D. Property, Plant and Equipment."
Agreement, dated as of December 22, 2016, between us and B.G. (Israel) Technologies Ltd.	"ITEM 3.D. Risk Factors— Risks Related to Our Business and Our Industry— Risk factor titled "If our relationships with suppliers..."
Lease Agreement dated as of March 25, 2010 between us and Benbenisti Engineering Ltd., as amended	"ITEM 4.D. Property, Plant and Equipment."
Lease dated December 2017 between Bonanno Real Estate Group I, L.P. and Kornit Digital North America, Inc.	"ITEM 4.D. Property, Plant and Equipment."
Development Contract, dated November 26, 2018, by and between us and the Israel Lands Authority	"ITEM 3.D. Risk Factors—Risks Related to Our Business and Our Industry — Our new Kiryat Gat facility..."

### D. Exchange Controls

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 some transactions. However, legislation remains in effect under 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 articles or by the laws of the State of Israel.

## **E. Taxation**

### **Israeli Tax Considerations**

The following is a brief summary of the material Israeli tax consequences concerning the ownership and disposition of our ordinary shares by our shareholders. 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. Examples of such investors include residents of Israel or traders in securities who are subject to special tax regimes not covered in this discussion. Because parts of this discussion are based on new tax legislation that has not yet been subject to judicial or administrative interpretation, we cannot assure you that the appropriate tax authorities or the courts will accept the views expressed in this discussion. The discussion below is subject to change, including due to amendments under Israeli law or changes to the applicable judicial or administrative interpretations of Israeli law, which change could affect the tax consequences described below.

#### *Capital Gains Taxes Applicable to Non-Israeli Resident Shareholders.*

Israeli capital gains tax is imposed on the disposal of capital assets by a non-Israeli resident if such assets are either (i) located in Israel; (ii) shares or rights to shares in an Israeli resident company, or (iii) represent, directly or indirectly, rights to assets located in Israel, unless a specific exemption is available or unless a tax treaty between Israel and the seller's country of residence provides otherwise. Capital gain is generally subject to tax at the corporate tax rate (23% in 2018 and thereafter), if generated by a company, or at the rate of 25% if generated by an individual, or 30% in the case of sale of shares by a Substantial Shareholder (i.e., a person who holds, directly or indirectly, alone or together with such person's relative or another person who collaborates with such person on a permanent basis, 10% or more of any of the company's "means of control" (including, among other things, the right to receive profits of the company, voting rights, the right to receive proceeds upon liquidation and the right to appoint a director)) at the time of sale or at any time during the preceding 12-month period. Individual and corporate shareholders dealing in securities in Israel are taxed at the tax rates applicable to business income (a corporate tax rate for a corporation and a marginal tax rate of up to 47% for an individual in 2019) unless the benefiting provisions of an applicable treaty applies.

Notwithstanding the foregoing, a non-Israeli resident (individual or corporation) who derives capital gains from the sale of shares in an Israeli resident company that were purchased after the company was listed for trading on a recognized stock exchange in Israel or outside of Israel will generally be exempt from Israeli tax so long as the shares were not held through a permanent establishment that the non-resident maintains in Israel (and with respect to shares listed on a recognized stock exchange outside of Israel, so long as neither the shareholder nor the particular capital gain is otherwise subject to the Israeli Income Tax Law (Inflationary Adjustments) 5745-1985). However, non-Israeli corporations will not be entitled to the foregoing 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. These provisions dealing with capital gain are not applicable to a person whose gains from selling or otherwise disposing of the shares are deemed to be business income.



Additionally, a sale of shares by a non-Israeli resident may be exempt from Israeli capital gains tax under the provisions of an applicable tax treaty. For example, under the United States-Israel Tax Treaty, the sale, exchange or other disposition of shares of an Israeli company by a shareholder who (i) is a U.S. resident (for purposes of the treaty), (ii) holds the shares as a capital asset, and (iii) is entitled to claim the benefits afforded to such person by the treaty, is generally exempt from Israeli capital gains tax. Such exemption will not apply if: (i) the capital gain arising from such sale, exchange or disposition is attributed to real estate located in Israel; (ii) the capital gain arising from such sale, exchange or disposition is attributed to royalties; (iii) the capital gain arising from the sale, exchange or disposition that can be attributed to a permanent establishment of the shareholder that is maintained in Israel under certain terms; (iv) the shareholder holds, directly or indirectly, shares representing 10% or more of the voting rights during any part of the 12-month period preceding such sale exchange or other disposition, subject to certain conditions; or (v) such U.S. resident is an individual and was present in Israel for a period or periods aggregating to 183 days or more during the relevant taxable year. In any such case, the sale, exchange or disposition of our ordinary shares would be subject to Israeli tax, to the extent applicable; however, under the United States-Israel Tax Treaty, a U.S. resident would be permitted to claim a credit for such taxes against the U.S. federal income tax imposed with respect to such sale, exchange or disposition, subject to the limitations under U.S. law applicable to foreign tax credits. The United States-Israel Tax Treaty does not relate to U.S. state or local taxes.

In some instances where our shareholders may be liable for Israeli tax on the sale of their ordinary shares, the payment of the consideration may be subject to the withholding of Israeli tax at source. Shareholders may be required to demonstrate that they are exempt from tax on their capital gains in order to avoid withholding at source at the time of sale. Specifically, in transactions involving a sale of all of the shares of an Israeli resident company, such as a merger or other transaction, the Israel Tax Authority may require from shareholders who are not liable for Israeli tax to sign declarations in forms specified by that authority or obtain a specific exemption from the Israel Tax Authority to confirm their status as non-Israeli residents, and, in the absence of such declarations or exemptions, may require the purchaser of the shares to withhold taxes at source.

#### *Taxation of Non-Israeli Shareholders on Receipt of Dividends.*

Non-Israeli residents (whether individuals or corporations) are generally subject to Israeli income tax on the receipt of dividends paid on our ordinary shares at the rate of 25% or 30% (if the recipient is a Substantial Shareholder at the time of receiving the dividend or at any time during the preceding 12 months) or 15% if the dividend is distributed from income attributed to a Benefited Enterprise and 20% with respect to a Preferred Enterprise, subject to certain conditions. Such dividends are generally subject to Israeli withholding tax at a rate of 25% so long as the shares are registered with a nominee company (whether the recipient is a Substantial Shareholder or not) and 15% if the dividend is distributed from income attributed to a Benefited Enterprise or 20% if the dividend is distributed from income attributed to an Preferred Enterprise, unless a reduced rate is provided under an applicable tax treaty (subject to the receipt of a valid certificate from the Israel Tax Authority allowing for a reduced tax rate).

For example, under the United States-Israel Tax Treaty, the maximum rate of tax withheld at source in Israel on dividends paid to a holder of our ordinary shares who is a U.S. resident (for purposes of the United States-Israel Tax Treaty) is 25%. However, generally, the maximum rate of withholding tax for dividends not generated by a Benefited Enterprise and paid to a U.S. corporation holding 10% or more of the outstanding voting rights from the start of the tax year preceding the distribution of the dividend through (and including) the distribution of the dividend, is 12.5%, provided that not more than 25% of the gross income for such preceding year consists of certain types of dividends and interest. Notwithstanding the foregoing, a distribution of dividends to non-Israeli residents is subject to withholding tax at source at a rate of 15% if the dividend is distributed from income attributed to a Benefited Enterprise for such U.S. corporation shareholder, provided that the condition related to our gross income for the previous year (as set forth in the previous sentence) is met. U.S. residents who are subject to Israeli withholding tax on a dividend 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 U.S. tax legislation.

If the dividend is attributable partly to income derived from a Benefited Enterprise or a Preferred Enterprise, and partly from other sources of income, the withholding rate will be a blended rate reflecting the relative portions of the two types of income.

#### *Estate and Gift Tax.*

Israeli law presently does not impose estate or gift taxes.

#### *Excess Tax.*

Beginning on January 1, 2013, an additional tax liability at the rate of 2% was added to the applicable tax rate on the annual taxable income of individuals (whether any such individual is an Israeli resident or non-Israeli resident) exceeding a certain level, including, but not limited to, dividends, interest and capital gain. Pursuant to new legislation enacted recently, such tax rate was increased to 3% on annual income exceeding NIS 641,880 in 2018 and NIS 649,560 in 2019 (which amounts are linked to the annual change in the Israeli consumer price index).

## U.S. Federal Income Taxation

The following is a description of the material U.S. federal income tax consequences to U.S. Holders (as defined below) of the acquisition, ownership and disposition of our ordinary shares. This description addresses only the U.S. federal income tax consequences to purchasers of our ordinary shares and that will hold such ordinary shares as capital assets. This description does not address tax considerations applicable to holders that may be subject to special tax rules, including, without limitation:

- banks, financial institutions or insurance companies;
- real estate investment trusts, regulated investment companies or grantor trusts;
- dealers or traders in securities, commodities or currencies;
- tax-exempt entities;
- certain former citizens or long-term residents of the United States;
- persons that received our ordinary shares as compensation for the performance of services;
- persons that will hold our ordinary shares as part of a “hedging,” “integrated” or “conversion” transaction or as a position in a “straddle” for U.S. federal income tax purposes;
- partnerships (including entities classified as partnerships for U.S. federal income tax purposes) or other pass-through entities, or holders that will hold our ordinary shares through such an entity;
- U.S. Holders (as defined below) whose “functional currency” is not the U.S. dollar; or
- holders that own directly, indirectly or through attribution 10.0% or more of the voting power or value of our ordinary shares.

Moreover, this description does not address the United States federal estate, gift, alternative minimum tax or net investment income tax consequences, or any state, local or non-U.S. tax consequences, of the acquisition, ownership and disposition of our ordinary shares.

This description is based on the U.S. Internal Revenue Code of 1986, as amended, or the Code, existing, proposed and temporary U.S. Treasury Regulations and judicial and administrative interpretations thereof, in each case as in effect and available on the date hereof. Each of the foregoing is subject to change, which change could apply retroactively and could affect the tax consequences described below. There can be no assurances that the U.S. Internal Revenue Service will not take a different position concerning the tax consequences of the acquisition, ownership and disposition of our ordinary shares or that such a position would not be sustained.

For purposes of this description, a “U.S. Holder” is a beneficial owner of our ordinary shares that, for U.S. federal income tax purposes, is:

- a citizen or resident of the United States;
- a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States or any state thereof, including the District of Columbia;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or

- a trust if such trust has validly elected to be treated as a U.S. person for U.S. federal income tax purposes or if (1) a court within the United States is able to exercise primary supervision over its administration and (2) one or more U.S. persons have the authority to control all of the substantial decisions of such trust.

If a partnership (or any other entity treated as a partnership for U.S. federal income tax purposes) holds ordinary shares, the tax treatment of a partner in such partnership will generally depend on the status of the partner and the activities of the partnership. Such a partner or partnership should consult its tax advisor as to its tax consequences.

**You should consult your tax advisor with respect to the U.S. federal, state, local and foreign tax consequences of acquiring, owning and disposing of our ordinary shares.**

### ***Distributions***

Subject to the discussion below under “— Passive Foreign Investment Company Considerations,” if you are a U.S. Holder, the gross amount of any distribution that we pay you with respect to our ordinary shares before reduction for any non-U.S. taxes withheld therefrom generally will be includible in your income as dividend income to the extent such distribution is paid out of our current or accumulated earnings and profits as determined under U.S. federal income tax principles. To the extent that the amount of any cash distribution exceeds our current and accumulated earnings and profits as determined under U.S. federal income tax principles, it will be treated first as a tax free return of your adjusted tax basis in our ordinary shares and thereafter as capital gain. We do not expect to maintain calculations of our earnings and profits under U.S. federal income tax principles. Therefore, if you are a U.S. Holder, you should expect that the entire amount of any cash distribution generally will be reported as dividend income to you; provided, however, that distributions of ordinary shares to U.S. Holders that are part of a pro rata distribution to all of our shareholders generally will not be subject to U.S. federal income tax. Non-corporate U.S. Holders may qualify for the lower rates of taxation with respect to dividends on ordinary shares applicable to long term capital gains (i.e., gains from the sale of capital assets held for more than one year), provided that certain conditions are met, including certain holding period requirements and the absence of certain risk reduction transactions. Moreover, such reduced rate shall not apply if we are a PFIC for the taxable year in which it pays a dividend or were a PFIC for the preceding taxable year. Dividends will not be eligible for the dividends received deduction generally allowed to corporate U.S. Holders.

If you are a U.S. Holder, subject to the discussion below, dividends that we pay you with respect to our ordinary shares will be treated as foreign source income, which may be relevant in calculating your foreign tax credit limitation. Subject to certain conditions and limitations, non-U.S. tax withheld on dividends may be deducted from your taxable income or credited against your U.S. federal income tax liability. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, dividends that we distribute generally should constitute “passive category income,” or, in the case of certain U.S. Holders, “general category income.” A foreign tax credit for foreign taxes imposed on distributions may be denied if you do not satisfy certain minimum holding period requirements. The rules relating to the determination of the foreign tax credit are complex, and you should consult your tax advisor to determine whether and to what extent you will be entitled to this credit.

Although, as discussed above, dividends that we pay to a U.S. Holder will generally be treated as foreign source income, for periods in which we are a “United States-owned foreign corporation,” a portion of dividends paid by us may be treated as U.S. source income solely for purposes of the foreign tax credit. We would be treated as a United States-owned foreign corporation if 50% or more of the total value or total voting power of our stock is owned, directly, indirectly or by attribution, by United States persons. To the extent any portion of our dividends is treated as U.S. source income pursuant to this rule, the ability of a U.S. Holder to claim a foreign tax credit for any Israeli withholding taxes payable in respect of our dividends may be limited. A U.S. Holder entitled to benefits under the United States-Israel Tax Treaty may, however, elect to treat any dividends as foreign source income for foreign tax credit purposes if the dividend income is separated from other income items for purposes of calculating the U.S. Holder’s foreign tax credit. U.S. Holders should consult their own tax advisors about the impact of, and any exception available to, the special sourcing rule described in this paragraph, and the desirability of making, and the method of making, such an election.

The amount of any dividend income paid in NIS will be the U.S. dollar amount calculated by reference to the exchange rate in effect on the date of receipt, regardless of whether the payment is in fact converted into U.S. dollars. If the dividend is converted into U.S. dollars on the date of receipt, you should not be required to recognize exchange gain or loss in respect of the dividend income. You may have exchange gain or loss if the dividend is converted into U.S. dollars after the date of receipt. Exchange gain or loss will be treated as U.S.-source ordinary income or loss.

### ***Sale, Exchange or Other Disposition of Ordinary Shares***

Subject to the discussion above under “— Passive Foreign Investment Company Considerations,” if you are a U.S. Holder, you generally will recognize an amount of gain or loss on the sale, exchange or other disposition of our ordinary shares equal to the difference between the amount realized on such sale, exchange or other disposition and your tax basis in our ordinary shares, and such gain or loss will be capital gain or loss. The tax basis in an ordinary share generally will equal the U.S. dollar cost of such ordinary share. If you are a non-corporate U.S. Holder, capital gain from the sale, exchange or other disposition of ordinary shares generally will be eligible for a preferential rate of taxation applicable to capital gains, if your holding period for such ordinary shares exceeds one year. The deductibility of capital losses for U.S. federal income tax purposes is subject to limitations under the Code. Any such gain or loss that a U.S. Holder recognizes generally will be treated as U.S. source income or loss for foreign tax credit limitation purposes.

If an Israeli tax is imposed on the sale or other disposition of our ordinary shares, your amount realized will include the gross amount of the proceeds of the sale or other disposition before deduction of the Israeli tax. Because your gain from the sale or other disposition of our ordinary shares will generally be U.S.-source gain, and you may use foreign tax credits to offset only the portion of U.S. federal income tax liability that is attributable to foreign source income, you may be unable to claim a foreign tax credit with respect to the Israeli tax, if any, on gains. You should consult your tax adviser as to whether the Israeli tax on gains may be creditable against your U.S. federal income tax on foreign-source income from other sources.

### ***Passive Foreign Investment Company Considerations***

If we were to be classified as a “passive foreign investment company,” or PFIC, in any taxable year, a U.S. Holder would be subject to special rules generally intended to reduce or eliminate any benefits from the deferral of U.S. federal income tax that a U.S. Holder could derive from investing in a non-U.S. company that does not distribute all of its earnings on a current basis.

A non-U.S. corporation will be classified as a PFIC for federal income tax purposes in any taxable year in which, after applying certain look through rules, either

- at least 75% of its gross income is “passive income”; or;
- at least 50% of the average quarterly value of its gross assets (which may be determined in part by the market value of our ordinary shares, which is subject to change) is attributable to assets that produce “passive income” or are held for the production of passive income;

Passive income for this purpose generally includes dividends, interest, royalties, rents, gains from commodities and securities transactions, the excess of gains over losses from the disposition of assets which produce passive income, and includes amounts derived by reason of the temporary investment of funds raised in offerings of our ordinary shares. If a non-U.S. corporation owns at least 25% by value of the stock of another corporation, the non-U.S. corporation is treated for purposes of the PFIC tests as owning its proportionate share of the assets of the other corporation and as receiving directly its proportionate share of the other corporation’s income. If we are classified as a PFIC in any year with respect to which a U.S. Holder owns our ordinary shares, our ordinary shares generally will continue to be treated as shares in a PFIC with respect to such U.S. Holder in all succeeding years during which the U.S. Holder owns our ordinary shares, regardless of whether we continue to meet the tests described above.

Based on certain estimates of our gross income and gross assets and the nature of our business, we believe that we were not classified as a PFIC for the taxable year ended December 31, 2019, and furthermore do not expect to be classified for the taxable year ending December 31, 2020. Because PFIC status must be determined annually based on tests which are factual in nature, our PFIC status in future years will depend on our income, assets and activities in those years. In addition, because the market price of our ordinary shares is likely to fluctuate and because that market price may affect the determination of whether we will be considered a PFIC, there can be no assurance that we will not be considered a PFIC for any taxable year and we do not intend to make a determination of our or any of our future subsidiaries' PFIC status in the future. A U.S. Holder may be able to mitigate some of the adverse U.S. federal income tax consequences described below with respect to owning our ordinary shares if we are classified as a PFIC for our taxable year ending December 31, 2020, provided that such U.S. Holder is eligible to make, and successfully makes, either a "mark-to-market" election or a qualified electing fund election described below for the taxable year in which its holding period begins.

If we were a PFIC, and you are a U.S. Holder, then unless you make one of the elections described below, a special tax regime, which we refer to as the Excess Distribution Regime, will apply to both (a) any "excess distribution" by us to you (generally, your ratable portion of distributions in any year which are greater than 125% of the average annual distribution received by you in the shorter of the three preceding years or your holding period for our ordinary shares) and (b) any gain realized on the sale or other disposition of our ordinary shares. Under the Excess Distribution Regime, any excess distribution and realized gain will be treated as ordinary income and will be subject to tax as if (a) the excess distribution or gain had been realized ratably over your holding period, (b) the amount deemed realized in each year had been subject to tax in each year of that holding period at the highest marginal rate for such year (other than income allocated to the current period or any taxable period before we became a PFIC, which would be subject to tax at the U.S. Holder's regular ordinary income rate for the current year and would not be subject to the interest charge discussed below), and (c) the interest charge generally applicable to underpayments of tax had been imposed on the taxes deemed to have been payable in those years. Certain elections may be available that would result in an alternative treatment of our ordinary shares. If we are determined to be a PFIC, the Excess Distribution Regime described in this paragraph would also apply to indirect distributions and gains deemed to be realized by U.S. Holders in respect of any future subsidiary of ours that also may be determined to be PFICs.

If we are a PFIC for any taxable year during which a U.S. Holder holds our ordinary shares, then in lieu of being subject to the tax and interest charge rules discussed above, a U.S. Holder may make an election to include gain on the stock of a PFIC as ordinary income under a mark-to-market method, provided that such ordinary shares are "regularly traded" on a "qualified exchange." In general, our ordinary shares will be treated as "regularly traded" for a given calendar year if more than a de minimis quantity of our ordinary shares are traded on a qualified exchange on at least 15 days during each calendar quarter of such calendar year. Although the IRS has not published any authority identifying specific exchanges that may constitute "qualified exchanges," Treasury Regulations provide that a qualified exchange is (a) a United States securities exchange that is registered with the SEC, (b) the United States market system established pursuant to section 11A of the Securities and Exchange Act of 1934, or (c) a non-U.S. securities exchange that is regulated or supervised by a governmental authority of the country in which the market is located, provided that (i) such non-U.S. exchange has trading volume, listing, financial disclosure, surveillance and other requirements designed to prevent fraudulent and manipulative acts and practices, to remove impediments to and perfect the mechanism of a free and open, fair and orderly, market, and to protect investors; and the laws of the country in which such non-U.S. exchange is located and the rules of such non-U.S. exchange ensure that such requirements are actually enforced and (ii) the rules of such non-U.S. exchange effectively promote active trading of listed stocks. Our ordinary shares are listed on the NASDAQ Global Select Market, which is a United States securities exchange that is registered with the SEC. However, no assurance can be given that our ordinary shares meet the requirements to be treated as "regularly traded" for purposes of the mark-to-market election. In addition, because a mark-to-market election cannot be made for any lower-tier PFICs that we may own, a U.S. Holder may continue to be subject to the Excess Distribution Regime with respect to such holder's indirect interest in any investments held by us that are treated as an equity interest in a PFIC for U.S. federal income tax purposes, including stock in any future subsidiary of ours that is treated as a PFIC.

If a U.S. Holder makes an effective mark-to-market election, such U.S. Holder will include in each year that we are a PFIC as ordinary income the excess of the fair market value of such U.S. Holder's ordinary shares at the end of the year over such U.S. Holder's adjusted tax basis in our ordinary shares. Such U.S. Holder will be entitled to deduct as an ordinary loss in each such year the excess of such U.S. Holder's adjusted tax basis in our ordinary shares over their fair market value at the end of the year, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. A U.S. Holder will not mark-to-market gain or loss for any taxable year in which we are not classified as a PFIC. If a U.S. Holder makes an effective mark-to-market election, in each year that we are a PFIC, any gain such U.S. Holder recognizes upon the sale or other disposition of such U.S. Holder's ordinary shares will be treated as ordinary income and any loss will be treated as ordinary loss, but only to the extent of the net amount of previously included income as a result of the mark-to-market election.

A U.S. Holder's adjusted tax basis in our ordinary shares will be increased by the amount of any income inclusion and decreased by the amount of any deductions under the mark-to-market rules. If a U.S. Holder makes a mark-to market election, it will be effective for the taxable year for which the election is made and all subsequent taxable years unless our ordinary shares are no longer regularly traded on a qualified exchange or the IRS consents to the revocation of the election. U.S. Holders are urged to consult their tax advisers about the availability of the mark-to-market election, and whether making the election would be advisable in their particular circumstances.

Where a company that is a PFIC meets certain reporting requirements, a U.S. Holder can avoid certain adverse PFIC consequences described above by making a "qualified electing fund," or QEF, election to be taxed currently on its proportionate share of the PFIC's ordinary income and net capital gains. Generally, a QEF election should be made on or before the due date for filing a U.S. Holder's federal income tax return for the first taxable year in which it held our ordinary shares. If a timely QEF election is made, an electing U.S. Holder of our ordinary shares will be required to include in its ordinary income such U.S. Holder's pro rata share of our ordinary earnings and to include in its long-term capital gain income such U.S. Holder's pro rata share of our net capital gain, whether or not distributed. Under Section 1293 of the Code, a U.S. Holder's pro rata share of our ordinary income and net capital gain is the amount which would have been distributed with respect to such U.S. Holder's ordinary shares if, on each day during our taxable year, we had distributed to each holder of our ordinary shares a pro rata share of that day's ratable share of our ordinary earnings and net capital gain for such year. In certain cases in which a QEF does not distribute all of its earnings in a taxable year, its U.S. Holders may also be permitted to elect to defer payment of some or all of the taxes on the QEF's undistributed income but will then be subject to an interest charge on the deferred amount.

We intend to provide, upon request, all information that a U.S. Holder making a QEF election is required to obtain for U.S. federal income tax purposes (e.g., the U.S. Holder's pro rata share of ordinary income and net capital gain), and intend to provide, upon request, a "PFIC Annual Information Statement" as described in Treasury Regulation section 1.1295-1 (or in any successor IRS release or Treasury regulation), including all representations and statements required by such statement. U.S. Holders should consult their tax advisors to determine whether any of these elections would be available and if so, what the consequences of the alternative treatments would be in their particular circumstances.

If a U.S. Holder owns our ordinary shares during any year in which we are a PFIC, the U.S. Holder generally will be required to file an IRS Form 8621 with respect to us, generally with the U.S. Holder's federal income tax return for that year.

U.S. Holders should consult their tax advisors regarding whether we are a PFIC and the potential application of the PFIC rules.

### ***Disposition of Foreign Currency***

Foreign currency received as dividends on our ordinary shares or on the sale or retirement of an ordinary share will have a tax basis equal to its U.S. dollar value at the time the foreign currency is received. Foreign currency that is purchased will generally have a tax basis equal to the U.S. dollar value of the foreign currency on the date of purchase. Any gain or loss recognized on a sale or other disposition of a foreign currency (including upon exchange for U.S. dollars) will be U.S. source ordinary income or loss.

### ***Tax on Net Investment Income***

A U.S. Holder that is an individual or estate, or a trust that does not fall into a special class of trusts that is exempt from the tax, will be subject to a 3.8% tax on the lesser of (1) the U.S. Holder's "net investment income" for the relevant taxable year and (2) the excess of the U.S. Holder's modified adjusted gross income for the taxable year over a certain threshold (which in the case of individuals will be between \$125,000 and \$250,000, depending on the individual's circumstances). A U.S. Holder's net investment income generally will include its dividends on our ordinary shares and net gains from dispositions of our ordinary shares, unless those dividends or gains are derived in the ordinary course of the conduct of trade or business (other than trade or business that consists of certain passive or trading activities). Net investment income, however, may be reduced by deductions properly allocable to that income. A U.S. Holder that is an individual, estate or trust is urged to consult its tax adviser regarding the applicability of the Medicare tax to its income and gains in respect of its investment in the ordinary shares.

### ***Backup Withholding Tax and Information Reporting Requirements***

U.S. backup withholding tax and information reporting requirements may apply to certain payments to certain holders of our ordinary shares. Information reporting generally will apply to payments of dividends on, and to proceeds from the sale or redemption of, our ordinary shares made within the United States, or by a U.S. payor or U.S. middleman, to a holder of our ordinary shares, other than an exempt recipient (including a payee that is not a U.S. person that provides an appropriate certification and certain other persons). A payor will be required to withhold backup withholding tax from any payments of dividends on, or the proceeds from the sale or redemption of, ordinary shares within the United States, or by a U.S. payor or U.S. middleman, to a holder, other than an exempt recipient, if such holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with, or establish an exemption from, such backup withholding tax requirements. Any amounts withheld under the backup withholding rules will be allowed as a credit against the beneficial owner's U.S. federal income tax liability, if any, and any excess amounts withheld under the backup withholding rules may be refunded, provided that the required information is timely furnished to the IRS.

### ***Foreign Asset Reporting***

Certain U.S. Holders, who are individuals, are required to report information relating to an interest in our ordinary shares, subject to certain exceptions (including an exception for shares held in accounts maintained by financial institutions). U.S. Holders are urged to consult their tax advisors regarding their information reporting obligations, if any, with respect to their ownership and disposition of our ordinary shares.

**The above description is not intended to constitute a complete analysis of all tax consequences relating to acquisition, ownership and disposition of our ordinary shares. You should consult your tax advisor concerning the tax consequences of your particular situation.**

#### **F. Dividends and Paying Agents.**

Not applicable.

#### **G. Statement by Experts.**

Not applicable.

#### **H. Documents on Display**

We are currently subject to the informational requirements of the Exchange Act applicable to foreign private issuers and fulfill the obligations of these requirements by filing reports with the SEC. As a foreign private issuer, we are exempt from the rules under the Exchange Act relating 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 are not required under the Exchange Act to file periodic reports and financial statements with the SEC as frequently or as promptly as U.S. companies whose securities are registered under the Exchange Act. However, we intend to file with the SEC, within 120 days after the end of each subsequent fiscal year, an annual report on Form 20-F containing financial statements which will be examined and reported on, with an opinion expressed, by an independent public accounting firm. We also intend to furnish to the SEC reports on Form 6-K containing quarterly unaudited financial information for the first three quarters of each fiscal year.

You may read and copy any document we file with the SEC without charge at the SEC's public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. You may also obtain copies of the documents at prescribed rates by writing to the Public Reference Section of the SEC at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC also maintains an Internet website that contains reports and other information regarding issuers that file electronically with the SEC. Our filings with the SEC are also available to the public through the SEC's website at <http://www.sec.gov>. As permitted under NASDAQ Stock Market Rule 5250(d)(1)(C), we will post our annual reports filed with the SEC on our website at <http://www.kornit.com>. We will furnish hard copies of such reports to our shareholders upon request free of charge. The information contained on our website is not part of this or any other report filed with or furnished to the SEC.

## I. Subsidiary Information

Not applicable.

### ITEM 11. Quantitative and Qualitative Disclosures About Market Risks.

We are exposed to a variety of financial risks, including market risk (including foreign exchange risk and price risk), credit and interest risks and liquidity risk. Our overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on our financial performance.

#### *Foreign Currency Exchange Risk*

Due to our international operations, currency exchange rates impact our financial performance. In 2019, approximately 84% of our revenues were denominated in U.S. dollars, 15% of our revenues were denominated in Euros and 1% of our revenues were denominated in Great Britain Pounds. Conversely, in 2019, approximately 40% of our purchases of raw materials and components of our systems and ink and other consumables are denominated in either NIS or in NIS prices that are linked to U.S. dollars. Similarly, a majority of our operating costs, which are largely comprised of labor costs, are denominated in NIS, due to our operations in Israel. Accordingly, our results of operations may be materially affected by fluctuations in the value of the U.S. dollar relative to the NIS and the Euro.

The following table presents information about the changes in the exchange rates of the NIS and the Euro against the U.S. dollar:

Period	Change in Average Exchange Rate	
	U.S. Dollar against the NIS (%)	U.S. Dollar against the Euro (%)
2017	(6.3)	(1.9)
2018	(0.8)	(4.5)
2019	(0.9)	5.3

The figures above represent the change in the average exchange rate in the given period compared to the average exchange rate in the immediately preceding period. Negative figures represent depreciation of the U.S. dollar compared to the NIS and positive figures represent appreciation of the U.S. dollar compared to the NIS. We estimate that a 10% increase or decrease in the value of the NIS against the U.S. dollar would have decreased or increased our net income by approximately \$(29 million) or \$23 million in 2018, and \$(18 million) or \$18 million in 2019, respectively. We estimate that a 10% increase or decrease in the value of the Euro against the U.S. dollar would have increased or decreased our net income by approximately \$1 million or \$(0.5 million) in 2018 and \$2 million or \$(1.5 million) in 2019, respectively. These estimates of the impact of fluctuations in currency exchange rates on our historic results of operations may be different from the impact of fluctuations in exchange rates on our future results of operations since the mix of currencies comprising our revenues and expenses may change.



For purposes of our consolidated financial statements, local currency assets and liabilities are translated at the rate of exchange to the U.S. dollar on the balance sheet date and local currency revenues and expenses are translated at the exchange rate at the date of the transaction or the average exchange rate dollar during the reporting period to the United States.

To protect against an increase in the dollar-denominated value of expenses paid in NIS during the year, we have instituted a foreign currency cash flow hedging program, which seeks to hedge a portion of the economic exposure associated with our anticipated NIS-denominated expenses using derivative instruments. We intend to manage risks by using instruments such as foreign currency forward and swap contracts and other methods.

During 2018 and 2019, we entered into forward and option contracts to hedge against the risk of overall changes in future cash flow from payments of payroll and related expenses denominated in NIS.

We expect that the substantial majority of our revenues will continue to be denominated in U.S. dollars for the foreseeable future and that a significant portion of our expenses will continue to be denominated in NIS. We will continue to monitor exposure to currency fluctuations. However, we cannot provide any assurances that our hedging activities will be successful in protecting us in full from adverse impacts from currency exchange rate fluctuations. In addition, since we only plan to hedge a portion of our foreign currency exposure, our results of operations may be adversely affected due to the impact of currency fluctuations on the unhedged aspects of our operations.

#### ***Interest Rate Risk***

Our investment strategy is to achieve a return that will allow us to preserve capital and maintain liquidity requirements. We invest primarily in debt securities, corporate debt securities. By policy, we limit the amount of credit exposure to any one issuer. As of December 31, 2018 and December 31, 2019, unrealized losses on our marketable debt securities were partially due to temporary interest rate fluctuations as a result of higher market interest rates compared to interest rates at the time of purchase. We account for both fixed and variable rate securities at fair value with changes on gains and losses recorded in Other Comprehensive Income until the securities are sold.

#### ***Other Market Risks***

We do not believe that we have any material exposure to inflationary risks.

#### **ITEM 12. Description of Securities Other than Equity Securities.**

Not applicable.

## PART II

### ITEM 13. Defaults, Dividend Arrearages and Delinquencies.

None.

### ITEM 14. Material Modifications to the Rights of Security Holders and Use of Proceeds.

A-D. Not applicable

E. **Use of Proceeds**

#### **Initial Public Offering**

There has been no change in the information regarding the use of proceeds from our IPO since the last annual report on Form 20-F that we filed in March 2019. Our operations generate positive cash flow, and, as such, we did not use any further proceeds from our IPO during the year ended December 31, 2019.

### ITEM 15. Controls and Procedures.

#### **(a) Disclosure Controls and Procedures**

Our management evaluated, with the participation of our principal executive officer and principal financial officer, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), as of December 31, 2019. Based on their evaluation, our principal executive officer and principal financial officer concluded that as of December 31, 2019, our disclosure controls and procedures were effective such that the information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

#### **(b) Management annual report on internal control over financial reporting**

Our management, under the supervision of our Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Our management assessed the effectiveness of internal control over financial reporting as of December 31, 2019 based on the criteria established in “Internal Control-Integrated Framework (2013)” published by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management has concluded that our internal control over financial reporting was effective as of December 31, 2019.

#### **(c) Attestation report of the independent registered public accounting firm**

The attestation report of Kost Forer Gabbay & Kasierer, a member of EY Global, an independent registered public accounting firm in Israel, on our management’s assessment of our internal control over financial reporting as of December 31, 2019 is provided on page F-3, as included under Item 18 of this annual report.

#### **(d) Changes in internal control over financial reporting**

There were no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the period covered by this annual report that have materially affected, or that 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 Lauri Hanover, who serves on the audit committee of our board of directors and who meets the “independent director” definition under the NASDAQ Listing Rules, qualifies as an “audit committee financial expert,” as defined under the rules and regulations of the SEC.

**ITEM 16B. Code of Ethics.**

We have adopted a code of ethics and business conduct applicable to our executive officers, directors and all other employees. A copy of the code is delivered to every employee of our company and is available to investors and others on our website at <http://ir.kornit.com/> or by contacting our investor relations department. Under Item 16B of Form 20-F, if a waiver or amendment of the code of ethics and business conduct applies to our principal executive officer, principal financial officer, principal accounting officer, controller or other persons performing similar functions and relates to standards promoting any of the values described in Item 16B(b) of Form 20-F, we will disclose such waiver or amendment (i) on our website within five business days following the date of amendment or waiver in accordance with the requirements of Instruction 4 to such Item 16B or (ii) through the filing of a Report of Foreign Private Issuer on Form 6-K. No such amendment was adopted, nor waiver provided, by us during the fiscal year ended December 31, 2019.

**ITEM 16C. Principal Accountant Fees and Services.**

Fees billed or expected to be billed by Kost, Forer, Gabbay & Kasierer, a member of Ernst & Young Global, and other members of Ernst & Young Global for professional services for each of the last two fiscal years were as follows:

	<u>Year Ended December 31, 2018</u>		<u>Year Ended December 31, 2019</u>	
	<u>Amount</u>	<u>Percentage</u>	<u>Amount</u>	<u>Percentage</u>
Audit fees	\$ 319	70%	\$ 499	64%
Audit-Related Fees			85	11%
Tax Fees	81	18%	120	16%
All Other Fees	53	12%	72	9%
<b>Total</b>	<b>\$ 453</b>	<b>100%</b>	<b>\$ 776</b>	<b>100%</b>

“Audit fees” are the aggregate fees billed for the audit of our annual financial statements. This category also includes services that generally the independent accountant provides, such as consents and assistance with and review of documents filed with the SEC.

“Audit-related fees” are the aggregate fees billed for assurance and related services that are reasonably related to the performance of the audit and are not reported under audit fees. These fees primarily include accounting consultations regarding the accounting treatment of matters that occur in the regular course of business, implications of new accounting pronouncements and other accounting issues that occur from time to time.

“Tax fees” include fees for professional services rendered by our independent registered public accounting firm for tax compliance and tax advice on actual or contemplated transactions.

“Other fees” include fees for services rendered by our independent registered public accounting firm with respect to government incentives and other matters.

**Audit Committee’s Pre-approval Policies and Procedures**

Our audit committee follows pre-approval policies and procedures for the engagement of our independent accountant to perform certain audit and non-audit services. Pursuant to those policies and procedures, which are designed to assure that such engagements do not impair the independence of our auditors, the audit committee pre-approves annually a catalog of specific audit and non-audit services in the categories of audit service, audit-related service and tax services that may be performed by our independent accountants.

**ITEM 16D. Exemptions from the Listing 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.**

The NASDAQ Global Select Market requires companies with securities listed thereon to comply with its corporate governance standards. As a foreign private issuer, we are not required to comply with all of the rules that apply to listed domestic U.S. companies. Pursuant to NASDAQ Listing Rule 5615(a)(3), we have notified NASDAQ that with respect to the corporate governance practices described below, we instead follow Israeli law and practice and accordingly will not follow the NASDAQ Listing Rules. Except for the differences described below, we do not believe there are any significant differences between our corporate governance practices and those that apply to a U.S. domestic issuer under the NASDAQ corporate governance rules. However, we may in the future decide to use the foreign private issuer exemption with respect to some or all of the other NASDAQ corporate governance rules, in which case we will update our disclosure in ITEM 16G of Form 20-F.

- Quorum requirement for shareholder meetings: As permitted under the Companies Law, pursuant to our articles, the quorum required for an ordinary meeting of shareholders consists of at least two shareholders present in person, by proxy or by other voting instrument, who hold at least 25% of the voting power of our shares (and in an adjourned meeting, with some exceptions, two shareholders, regardless of the voting power associated with their shares), instead of 33 <sup>1</sup>/<sub>3</sub>% of the issued share capital, as required under the NASDAQ Listing Rules.
- Nomination of directors. With the exception of external directors (if applicable to us at the time) and directors elected by our board of directors due to vacancy, our directors are elected, in a staggered manner, by an annual meeting of our shareholders to hold office until the third annual meeting following their election. The nominations for directors, which are presented to our shareholders by our board of directors, are generally made by the board of directors itself, in accordance with the provisions of our articles of association and the Companies Law. Nominations need not be made by a nominating committee of our board of directors consisting solely of independent directors or otherwise, as required under the NASDAQ Listing Rules.

**ITEM 16H. Mine Safety Disclosure.**

Not applicable.

### PART III

#### ITEM 17. Financial Statements.

Not applicable.

#### ITEM 18. Financial Statements.

See pages F-114 through F-161 appended hereto.

#### ITEM 19. Exhibits.

<u>Exhibit No.</u>	<u>Description</u>
1.1	<a href="#">Amended and Restated Articles of Association of Kornit Digital Ltd.<sup>(1)</sup></a>
2.1	<a href="#">Specimen ordinary share certificate of Kornit Digital Ltd.<sup>(2)</sup></a>
2.2	<a href="#">Description of ordinary shares of Kornit Digital Ltd.</a>
4.1	<a href="#">Form of Indemnification Agreement<sup>(2)</sup></a>
4.2	<a href="#">2004 Share Option Plan<sup>(3)</sup></a>
4.3	<a href="#">2012 Share Incentive Plan<sup>(3)</sup></a>
4.4	<a href="#">2015 Incentive Compensation Plan<sup>(1)</sup></a>
4.5	<a href="#">Kornit Digital Ltd. Compensation Policy<sup>(4)</sup></a>
4.6	<a href="#">English summary of the Office and Parking Space Lease Agreement dated as of December 17, 2007, by and between the Registrant and Industrial Building Corporation Ltd. as amended by Addendum, dated 2007, Addendum to Lease Agreement, dated 2007, Addendum to Lease Agreement, dated March 8, 2012, Addendum to Lease Agreement, dated 2012, Addendum to Lease Agreement, dated December 19, 2012, Addendum to Lease Agreement, dated May 20, 2013, Addendum to Lease Agreement, dated January 12, 2014, Addendum to Lease Agreement, dated January 12, 2014, Addendum to Lease Agreement, dated December 27, 2015, Addendum to Lease Agreement, dated December 28, 2015, Addendum to the Lease Agreement dated October 17, 2017, Addendum dated February 21, 2018, Addendum to the Lease Agreement, dated April 23, 2018, Addendum to the Lease Agreement dated December 26, 2018, Addendum to the Lease Agreement, dated January 3, 2019, Addendum to the Lease Agreement dated September 16, 2019 and Addendum to the Lease Agreement, dated November 28, 2019.</a>
4.7	<a href="#">English summary of the Lease Agreement, dated March 25, 2010, by and between the Registrant and Benvenisti Engineering Ltd. as amended by Addendum to Lease Agreement, dated November 21, 2011, Addendum to Lease Agreement, dated September 16, 2014, Addendum to the Lease Agreement dated March 16, 2015, an Addendum to the Lease Agreement dated August 31, 2017, and an Addendum to the Lease Agreement dated June 24, 2018.</a>
4.8	<a href="#">OEM Supply Agreement, dated December 3, 2015, among the Registrant and FujiFilm Dimatix, Inc.<sup>†(5)</sup></a>
4.9	<a href="#">Manufacturing Services Agreement, dated May 2015, by and between the Registrant and Flextronics (Israel) Ltd.<sup>†(6)</sup></a>
4.10	<a href="#">English translation of Hebrew Original of Agreement, dated December 22, 2016 between the Registrant and B.G. (Israel) Technologies Ltd.<sup>†(7)</sup></a>
4.11.1	<a href="#">Master Purchase Agreement, dated January 10, 2017, between the Registrant and Amazon Corporate LLC<sup>†(8)</sup></a>
4.11.2	<a href="#">Amendment 1 to Master Purchase Agreement, effective March 1, 2017, between the Registrant and Amazon Corporate LLC*</a>
4.11.3	<a href="#">Amendment 2 to Master Purchase Agreement, effective January 1, 2018, between the Registrant and Amazon Corporate LLC*</a>
4.11.4	<a href="#">Amendment 3 to Master Purchase Agreement, effective June 29, 2018, between the Registrant and Amazon Corporate LLC*</a>
4.12	<a href="#">Transaction Agreement, dated January 10, 2017, between the Registrant and Amazon.com, Inc.<sup>(9)</sup></a>
4.13	<a href="#">Warrant to Purchase Ordinary Shares, dated January 10, 2017, issued to Amazon.com NV Investment Holdings LLC<sup>(10)</sup></a>
4.14	<a href="#">Lease, dated December 2017, between Kornit Digital North America, Inc. and Bonanno Real Estate Group I, L.P.<sup>(11)</sup></a>
4.15	<a href="#">English translation of Development Contract, dated November 26, 2018, by and between the Registrant and the Israel Lands Authority<sup>(12)</sup></a>
4.16	<a href="#">Manufacturing Services Agreement, dated as of February 26, 2019, by and between the Registrant and Sanmina-SCI Israel Medical Systems Ltd.*</a>
8.1	<a href="#">List of subsidiaries of the Registrant</a>
12.1	<a href="#">Certificate of Chief Executive Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as adopted pursuant to §302 of the Sarbanes-Oxley Act of 2002</a>
12.2	<a href="#">Certificate of Chief Financial Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as adopted pursuant to §302 of the Sarbanes-Oxley Act of 2002</a>

13.1	<a href="#">Certificate of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, furnished herewith</a>
15.1	<a href="#">Consent of Kost Forer Gabbay &amp; Kasierer, a member firm of Ernst &amp; Young Global, an independent registered public accounting firm.</a>
101	The following financial information from Kornit Digital Ltd.'s Annual Report on Form 20-F for the year ended December 31, 2019 formatted in Inline XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets at December 31, 2018 and 2019; (ii) Consolidated Statements of Operations for the years ended December 31, 2017, 2018 and 2019; (iii) Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2017, 2018 and 2019; (iv) Statements of Shareholders' Equity for the years ended December 31, 2017, 2018 and 2019; (v) Consolidated Statements of Cash Flows for the years ended December 31, 2017, 2018 and 2019; (vi) Notes to Consolidated Financial Statements, tagged as blocks of text; and (vi) Cover Page Interactive Data File.
104	Inline Cover Page Interactive Data File (included in Exhibit 101).

- (1) Previously filed with the SEC on March 18, 2015 as exhibit to the Registrant's registration statement on Form F-1 (SEC File No. 333-202291) and incorporated by reference herein.
- (2) Previously filed with the SEC on March 10, 2015 as an exhibit to the Registrant's registration statement on Form F-1 (SEC File No. 333-202291) and incorporated by reference herein.
- (3) Previously filed with the SEC on February 25, 2015 as an exhibit to the Registrant's registration statement on Form F-1 (SEC File No. 333-202291) and incorporated by reference herein.
- (4) Previously furnished to the SEC on August 21, 2015 as Annex A to Exhibit 99.1 to the Registrant's Report of Foreign Private Issuer on Form 6-K and incorporated by reference herein.
- (5) Previously filed with the SEC on April 14, 2016 as Exhibit 4.9 to Amendment No. 1 to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2015 and incorporated by reference herein.
- (6) Previously filed with the SEC on March 30, 2017 as Exhibit 4.11 to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2016 and incorporated by reference herein.
- (7) Previously filed with the SEC on March 30, 2017 as Exhibit 4.12 to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2016 and incorporated by reference herein.
- (8) Previously filed with the SEC on March 30, 2017 as Exhibit 4.13 to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2016 and incorporated by reference herein.
- (9) Previously filed with the SEC on March 30, 2017 as Exhibit 4.14 to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2016 and incorporated by reference herein.
- (10) Previously filed with the SEC on March 30, 2017 as Exhibit 4.15 to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2016 and incorporated by reference herein.
- (11) Previously filed with the SEC on March 20, 2018 as Exhibit 4.16 to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2017 and incorporated by reference herein.
- (12) Previously filed with the SEC on March 26, 2019 as Exhibit 4.16 to the Registrant's Annual Report on Form 20-F for the year ended December 31, 2018 and incorporated by reference herein.

† Portions of this agreement were omitted and a complete copy of this agreement has been provided separately to the Securities and Exchange Commission pursuant to the company's application requesting confidential treatment under Rule 406 under the Securities Act of 1933 as amended or Rule 24b-2 under the Securities Exchange Act of 1934, as amended, as applicable.

\* Portions of this exhibit have been omitted in accordance with the rules of the Securities and Exchange Commission.

**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.

**KORNIT DIGITAL LTD.**

By: /s/ Guy Avidan

Name: Guy Avidan

Title: Chief Financial Officer

Date: March 23, 2020

KORNIT DIGITAL LTD. AND SUBSIDIARIES  
CONSOLIDATED FINANCIAL STATEMENTS  
AS OF DECEMBER 31, 2019  
U.S. DOLLARS IN THOUSANDS

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of Kornit Digital Ltd.

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Kornit Digital Ltd. and subsidiaries (the Company) as of December 31, 2019 and 2018, the related consolidated statements of operations, comprehensive income (loss), changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 23, 2020 expressed an unqualified opinion thereon.

### Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's 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 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 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 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 financial statements. We believe that our audits provide a reasonable basis for our opinion.

### Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the account or disclosure to which it relates.

### ***Inventory Valuation***

*Description of  
the Matter*

The Company's inventories totaled \$37.5 million as of December 31, 2019. As explained in Note 2 to the consolidated financial statements, the Company assesses the value of all inventories, including raw materials, finished goods and spare parts, in each reporting period. Obsolete inventory or inventory in excess of management's estimated usage requirement is written down to its estimated market value if those amounts are determined to be less than cost.

Auditing management's estimates for excess and obsolete inventory involved subjective auditor judgment because the estimates rely on a number of factors that are affected by market and economic conditions outside the Company's control. In particular, the obsolete and excess inventory calculations are sensitive to significant assumptions, including demand for the Company's products and expected industry sales growth.

*How  
We Addressed the  
Matter in  
Our Audit*

We obtained an understanding, evaluated the design, and tested the operating effectiveness of internal controls over the Company's excess and obsolete inventory reserve process. This included management's assessment of the assumptions and data underlying the excess and obsolete inventory valuation.

Our substantive audit procedures included, among others, evaluating the significant assumptions stated above and the accuracy and completeness of the underlying data management used to value excess and obsolete inventory. We compared the cost of on-hand inventories to historical sales and evaluated adjustments to sales forecasts for specific product considerations, such as technological changes or alternative uses. We also assessed the historical accuracy of management's estimates and performed sensitivity analyses over the significant assumptions to evaluate the changes in the obsolete and excess inventory estimates that would result from changes in the underlying assumptions.

/s/ KOST FORER GABBAY & KASIERER  
A Member of EY Global

We have served as the Company's auditor since 2012.

Tel-Aviv, Israel  
March 23, 2020





## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of Kornit Digital Ltd.

### Opinion on Internal Control over Financial Reporting

We have audited Kornit Digital Ltd and subsidiaries' internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Kornit Digital Ltd and subsidiaries (the "Company") maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2019, and 2018, the related consolidated statements of operations, comprehensive income (loss), change in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes and our report dated March 23, 2020 expressed an unqualified opinion thereon.

### Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the 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 audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KOST FORER GABBAY & KASIERER  
A Member of EY Global  
Tel-Aviv, Israel  
March 23, 2020

**CONSOLIDATED BALANCE SHEETS**

U.S. dollars in thousands

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 40,743	\$ 74,132
Short-term bank deposits	95,000	5,000
Marketable securities	32,567	3,981
Trade receivables, net	40,510	21,953
Inventories	37,477	30,030
Other accounts receivable and prepaid expenses	6,985	5,660
<b>Total</b> current assets	<b>253,282</b>	<b>140,756</b>
<b>LONG-TERM ASSETS:</b>		
Marketable securities	95,393	44,603
Deposits and other long-term assets	356	744
Severance pay fund	301	351
Deferred taxes	7,781	7,272
Property, plant and equipment, net	17,489	14,994
Operating lease right-of-use assets	22,806	-
Intangible assets, net	2,494	1,011
Goodwill	5,564	5,092
<b>Total</b> long-term assets	<b>152,184</b>	<b>74,067</b>
<b>Total assets</b>	<b>\$ 405,466</b>	<b>\$ 214,823</b>

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

**CONSOLIDATED BALANCE SHEETS**

U.S. dollars in thousands, except share and per share data

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Trade payables	\$ 23,449	\$ 16,614
Employees and payroll accruals	9,165	7,932
Deferred revenues and advances from customers	2,688	3,633
Operating lease liabilities	3,902	-
Other payables and accrued expenses	6,373	4,993
<b>Total current liabilities</b>	<b>45,577</b>	<b>33,172</b>
<b>LONG TERM LIABILITIES:</b>		
Accrued severance pay	1,035	1,059
Operating lease liabilities	19,231	-
Other long-term liabilities	1,320	1,456
<b>Total long-term liabilities</b>	<b>21,586</b>	<b>2,515</b>
<b>SHAREHOLDERS' EQUITY:</b>		
Ordinary shares of NIS 0.01 par value –		
Authorized: 200,000,000 shares at December 31, 2019 and 2018, respectively; Issued and Outstanding:		
40,684,340 shares and 35,065,200 shares at December 31, 2019 and 2018, respectively	105	89
Additional paid in capital	304,617	156,714
Accumulated other comprehensive income (loss)	843	(238)
Retained earnings	32,738	22,571
<b>Total shareholders' equity</b>	<b>338,303</b>	<b>179,136</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 405,466</b>	<b>\$ 214,823</b>

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

**CONSOLIDATED STATEMENTS OF OPERATIONS**

U.S. dollars in thousands, except per share data

	Year ended December 31,		
	2019	2018	2017
Revenues:			
Products	\$ 156,594	\$ 125,729	\$ 101,953
Services	23,272	16,644	12,135
Total revenues	<u>179,866</u>	<u>142,373</u>	<u>114,088</u>
Cost of revenues:			
Products	71,057	53,303	46,480
Services	26,733	19,201	13,497
Total cost of revenues	<u>97,790</u>	<u>72,504</u>	<u>59,977</u>
Gross profit	<u>82,076</u>	<u>69,869</u>	<u>54,111</u>
Operating expenses:			
Research and development	22,407	21,912	20,834
Selling and marketing	33,573	25,596	21,279
General and administrative	18,498	16,436	13,578
Restructuring	-	321	503
Total operating expenses	<u>74,478</u>	<u>64,265</u>	<u>56,194</u>
Operating income (loss)	7,598	5,604	(2,083)
Financial income, net	<u>3,313</u>	<u>1,433</u>	<u>452</u>
Income (loss) before taxes on income (tax benefit)	10,911	7,037	(1,631)
Taxes on income (tax benefit)	<u>744</u>	<u>(5,392)</u>	<u>384</u>
Net income (loss)	<u>\$ 10,167</u>	<u>\$ 12,429</u>	<u>\$ (2,015)</u>
Basic earnings (losses) per share	<u>\$ 0.27</u>	<u>\$ 0.36</u>	<u>\$ (0.06)</u>
Diluted earnings (losses) per share	<u>\$ 0.26</u>	<u>\$ 0.35</u>	<u>\$ (0.06)</u>

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

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

U.S. dollars in thousands

	Year ended December 31,		
	2019	2018	2017
Net income (loss)	\$ 10,167	\$ 12,429	\$ (2,015)
Other comprehensive income (loss):			
Change in unrealized gains (losses) on marketable securities:			
Unrealized gains (losses) arising during the period, net of taxes on income (tax benefit) of \$73, \$(36) and \$0, respectively	1,160	(887)	104
Losses (gains) reclassified into net income (loss)	(271)	480	(34)
Net change	889	(407)	70
Change in unrealized gains (losses) on cash flow hedges:			
Unrealized gains (losses) arising during the period, taxes on income (tax benefit) of \$8, \$(7) and \$0, respectively	132	(230)	436
Losses (gains) reclassified into net income (loss)	(30)	92	(394)
Net change	102	(138)	42
Foreign currency translation adjustment	90	6	271
Total other comprehensive income (loss), net of tax	1,081	(539)	383
Comprehensive income (loss)	\$ 11,248	\$ 11,890	\$ (1,632)

The accompanying notes are an integral part of the consolidated financial statements

## STATEMENTS OF SHAREHOLDERS' EQUITY

U.S. dollars in thousands, except share data

	Ordinary shares		Additional paid in capital	Accumulated other comprehensive income (loss)	Retained earnings	Total Shareholders' equity
	Number of shares outstanding	Amount				
Balance at December 31, 2016	30,989,873	\$ 78	\$ 94,966	\$ (82)	\$ 12,226	\$ 107,188
Issuance of ordinary shares in a secondary offering, net of issuance costs in an amount of \$981	2,300,000	6	35,071	-	-	35,077
Exercise of options	834,350	2	2,758	-	-	2,760
Share-based compensation	-	-	4,411	-	-	4,411
Cumulative effect of a change in accounting principle related to stock-based compensation	-	-	69	-	(69)	-
Warrants to customers	-	-	2,895	-	-	2,895
Other comprehensive income	-	-	-	383	-	383
Net loss	-	-	-	-	(2,015)	(2,015)
Balance at December 31, 2017	<u>34,124,223</u>	<u>\$ 86</u>	<u>\$ 140,170</u>	<u>\$ 301</u>	<u>\$ 10,142</u>	<u>\$ 150,699</u>
Exercise of options and vesting of restricted stock units	940,977	3	6,422	-	-	6,425
Share-based compensation	-	-	5,546	-	-	5,546
Warrants to customers	-	-	4,576	-	-	4,576
Other comprehensive loss	-	-	-	(539)	-	(539)
Net income	-	-	-	-	12,429	12,429
Balance at December 31, 2018	<u>35,065,200</u>	<u>\$ 89</u>	<u>\$ 156,714</u>	<u>\$ (238)</u>	<u>\$ 22,571</u>	<u>\$ 179,136</u>
Issuance of ordinary shares in a secondary offering, net of issuance costs in an amount of \$669	4,991,000	14	130,296	-	-	130,310
Exercise of options and vesting of restricted stock units	628,140	2	5,899	-	-	5,901
Share-based compensation	-	-	6,614	-	-	6,614
Warrants to customers	-	-	5,094	-	-	5,094
Other comprehensive income	-	-	-	1,081	-	1,081
Net income	-	-	-	-	10,167	10,167
Balance at December 31, 2019	<u>40,684,340</u>	<u>\$ 105</u>	<u>\$ 304,617</u>	<u>\$ 843</u>	<u>\$ 32,738</u>	<u>\$ 338,303</u>

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



**CONSOLIDATED STATEMENTS OF CASH FLOWS**

U.S. dollars in thousands

	December 31,		
	2019	2018	2017
<b>Cash flows from operating activities:</b>			
Net income (loss)	\$ 10,167	\$ 12,429	\$ (2,015)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	4,441	4,965	4,814
Fair value of warrants deducted from revenues	5,094	4,576	2,895
Share based compensation	6,614	5,546	4,411
Amortization of premium (discount) on marketable securities	(112)	388	546
Realized loss (gain) on sale of marketable securities	(271)	480	(34)
Decrease (increase) in trade receivables	(18,617)	1,069	9,081
Decrease (increase) in other receivables and prepaid expenses	(1,204)	(3,135)	1,100
Decrease (increase) in inventories	(4,183)	4,037	(10,629)
Decrease in operating leases right-of-use assets	(571)	-	-
Increase in deferred taxes	(5)	(6,665)	(125)
Decrease (increase) in other deposits and long-term assets	386	(121)	(10)
Increase (decrease) in trade payables	6,032	4,394	(3,635)
Increase in operating lease liabilities	898	-	-
Increase in employees and payroll accruals	1,423	1,621	360
Increase (decrease) in deferred revenues and advances from customers	(921)	1,981	(31)
Increase (decrease) in other payables and accrued expenses	1,708	548	(461)
Increase (decrease) in accrued severance pay, net	26	(1)	208
Decrease (increase) in other long-term liabilities	(136)	867	203
Loss from sale and disposal of property, plant and equipment	23	-	228
Foreign currency translation gain (loss) on intercompany balances with foreign subsidiaries	212	389	(916)
<b>Net cash provided by operating activities</b>	<b>11,004</b>	<b>33,368</b>	<b>5,990</b>
<b>Cash flows from investing activities:</b>			
Purchase of property, plant and equipment	(5,416)	(7,294)	(5,660)
Acquisition of intangible assets and capitalization of software development costs	(1,337)	-	-
Proceeds from sale of property, plant and equipment	3	-	6
Cash paid in connection with acquisition	(4,715)	-	-
Investment in short-term bank deposits	(90,000)	(500)	(4,500)
Proceeds from sale marketable securities	34,497	40,635	39,353
Proceeds from maturity of marketable securities	3,000	6,564	7,240
Investment in marketable securities	(115,529)	(22,723)	(83,183)
<b>Net cash provided by (used in) investing activities</b>	<b>(179,497)</b>	<b>16,682</b>	<b>(46,744)</b>
<b>Cash flows from financing activities:</b>			
Proceeds from public offering, net of issuance costs	129,710	-	35,077
Exercise of employee stock options	5,901	6,425	2,760
Payments related to shares withheld for taxes	(177)	-	-
Payment of contingent consideration	(303)	(900)	(1,400)
<b>Net cash provided by financing activities</b>	<b>135,131</b>	<b>5,525</b>	<b>36,437</b>
Foreign currency translation adjustments on cash and cash equivalents	(27)	(72)	157
Increase (decrease) in cash and cash equivalents	(33,389)	55,503	(4,160)
Cash and cash equivalents at the beginning of the period	74,132	18,629	22,789
<b>Cash and cash equivalents at the end of the period</b>	<b>\$ 40,743</b>	<b>\$ 74,132</b>	<b>\$ 18,629</b>

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

U.S. dollars in thousands

	Year ended December 31,		
	2019	2018	2017
<u>Supplemental disclosure of cash flow information</u>			
Cash paid during the year for income taxes	\$ 353	\$ 1,797	\$ 853
<u>Non-cash investing and financing activities:</u>			
Property, plant and equipment acquired by credit	\$ 920	\$ 222	\$ 427
Inventory transferred to be used as property, plant and equipment	\$ -	\$ 591	\$ 397
Lease liabilities arising from obtaining right-of-use assets	\$ 9,640	\$ -	\$ -

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands, except share and per share data**

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**NOTE 1:- GENERAL**

- a. Kornit Digital Ltd. (the “Company”) was incorporated in 2002 under the laws of the State of Israel. The Company and its subsidiaries develop, design and market digital printing solutions for the global printed textile industry. The Company’s and its subsidiaries’ solutions are based on their proprietary digital textile printing systems, ink and other consumables, associated software and value-added services.
- b. The Company established wholly owned subsidiaries in Israel, the United States, Germany, Hong Kong and the United Kingdom. The Company’s subsidiaries are engaged primarily in services, sales, and marketing, except for the Israeli subsidiary which is engaged primarily in research and development and manufacturing.
- c. The Company depends on four major suppliers to supply certain components for the production of its products. If one of these suppliers fails to deliver or delays the delivery of the necessary components, the Company will be required to seek alternative sources of supply. A change in these suppliers could result in manufacturing delays, which could cause a possible loss of sales and, consequently, could adversely affect the Company’s results of operations and financial position.
- d. On June 18, 2019, the Company closed a follow on and secondary offering where 4,991,000 ordinary shares were sold in the transaction to the public. The aggregate net proceeds received by the Company from the offering were \$129,710, net of underwriting discounts, commissions and offering expenses.

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES**

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (“U.S. GAAP”).

- a. Use of estimates:

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. The Company’s management believes that the estimates, judgments and assumptions used are reasonable based upon information available at the time they are made. Actual results could differ from those estimates.

On an ongoing basis, the Company’s management evaluates estimates, including those related to intangible assets and goodwill, tax assets and liabilities, fair values of stock-based awards, inventory write-offs, warranty provision, allowance for bad debt and provision for rebates and returns. Such estimates are based on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands, except share and per share data**

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**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

- b. Financial statements in United States dollars:

A majority of the revenues of the Company and its subsidiaries are denominated in U.S. dollars (“dollar” or “dollars”). The dollar is the primary currency of the economic environment in which the Company and its subsidiaries, other than the Company’s German subsidiary, operate. Thus, the functional and reporting currency of the Company and its subsidiaries, other than the Company’s German subsidiary, is the dollar. Accordingly, monetary accounts maintained in currencies other than the dollar are re-measured into U.S. dollars in accordance with Accounting Standards Codification (“ASC”) No. 830 “Foreign Currency Matters”. Changes in currency exchange rates between the Company’s functional currency and the currency in which a transaction is denominated are included in the Company’s results of operations as financial income, net in the period in which the currency exchange rates change.

For the Company’s subsidiary in Germany whose functional currency is the Euro, all amounts on the balance sheets have been translated into the dollar using the exchange rates in effect on the relevant balance sheet dates. All amounts in the statements of operations have been translated into the dollar using the exchange rate on the respective dates on which those elements are recognized. The resulting translation adjustments are reported as a component of accumulated other comprehensive income in shareholders’ equity.

- c. Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its subsidiaries. Intercompany balances and transactions including profits from intercompany sales have been eliminated upon consolidation.

- d. Cash equivalents:

Cash equivalents are short-term highly liquid investments that are readily convertible to cash with original maturities of three months or less, at acquisition.

- e. Short-term bank deposits:

Short-term bank deposits are deposits with an original maturity of more than three months but less than one year from the date of acquisition.

- f. Marketable securities:

The Company accounts for investments in marketable securities in accordance with ASC 320, “Investments - Debt and Equity Securities”. Management determines the appropriate classification of its investments at the time of purchase and re-evaluates such determinations at each balance sheet date. The Company classifies its marketable securities as either short-term or long-term based on each instrument’s underlying contractual maturity date and the entity’s expectations of sales and redemptions in the following year.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands, except share and per share data**

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**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

The Company classifies all of its marketable securities as available-for-sale. Available-for-sale securities are carried at fair value, with the unrealized gains and losses, net of tax, reported in “accumulated other comprehensive income (loss)” in shareholders’ equity. Realized gains and losses on sales of marketable securities are included in financial income, net and are derived using the specific identification method for determining the cost of securities.

The amortized cost of marketable securities is adjusted for amortization of premium and accretion of discount to maturity, both of which, together with interest, are included in financial income, net.

The Company recognizes an impairment charge when a decline in the fair value of its investments in marketable securities below the cost basis of such securities is judged to be other-than-temporary. Factors considered in making such a determination include the duration and severity of the impairment, the reason for the decline in value, the potential recovery period and the Company’s intent to sell, including whether it is more likely than not that the Company will be required to sell the investment before recovery of cost basis. For securities that are deemed other-than-temporarily impaired (“OTTI”), the amount of impairment is recognized in the statement of operations and is limited to the amount related to credit losses, while impairment related to other factors is recognized in accumulated other comprehensive income (loss). The Company did not recognize any impairment with respect to OTTI on its marketable securities in 2019, 2018 and 2017.

g. Inventories:

Inventories are measured at the lower of cost or net realizable value. The cost of inventories comprises costs of purchase and costs incurred in bringing the inventories to their present location and condition. Inventory write-off is measured as the difference between the cost of the inventory and net realizable value based upon assumptions about future demand and is charged to the cost of sales.

Cost of inventories is determined as follows:

Raw materials and components - on the basis of weighted average cost.

Finished products - on the basis of average costs of materials, and other direct manufacturing cost.

Inventory write offs have been provided to cover risks arising from slow-moving items, technological obsolescence and excess inventories according to revenue forecasts.

During the years ended December 31, 2019, 2018 and 2017, the Company recorded inventory write offs in a total amount of \$2,624, \$1,759 and \$2,988, respectively.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

U.S. dollars in thousands, except share and per share data

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

## h. Property, plant and equipment:

Property, plant and equipment are measured at cost, including directly attributable costs, less accumulated depreciation and accumulated impairment losses. Depreciation is calculated on a straight-line basis over the useful life of the assets at annual rates as follows:

	%
Office furniture and equipment	7 - 20
Computer and peripheral equipment	33
Machinery and equipment	7 - 33
Leasehold improvements	*)
Building and land	**)

\*) Leasehold improvements are amortized on a straight-line basis over the shorter of the lease term (including the extension option held by the Company and intended to be exercised) and the expected life of the improvement.

\*\*\*) Building and land consist of land and a new ink manufacturing plant. In September 2018 the company purchased the land which includes long-term leasehold rights, with lease term of 98 years. As of December 31, 2019, the ink manufacturing plant is under construction. Depreciation of the manufacturing plant will begin upon completion of its construction.

## i. Business combinations:

The Company accounts for business combinations in accordance with ASC No. 805, "Business Combinations" ("ASC No. 805"). ASC No. 805 requires recognition of assets acquired, liabilities assumed, and any non-controlling interest at the acquisition date, measured at their fair values as of that date.

Acquisition related costs are expensed to the statement of operations in the period incurred.

## j. Goodwill and other intangible assets:

Goodwill reflects the excess of the purchase price of business acquired over the fair value of net assets acquired. Under ASC No. 350, "Intangibles – Goodwill and other" ("ASC No. 350"), goodwill is not amortized but rather is tested for impairment at least annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. In accordance with ASC No. 350, the Company performs an annual impairment test on December 31 of each year.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands, except share and per share data**

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**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

The Company operates in one operating segment and this segment comprises the only reporting unit. The Company tests goodwill using the two-step process in accordance with ASC No. 350. The first step, identifying a potential impairment, compares the fair value of the reporting unit with its carrying amount. If the carrying amount exceeds its fair value, the second step would need to be performed; otherwise, no further step is required. The second step, measuring the impairment loss, compares the implied fair value of the goodwill with the carrying amount of the goodwill. Any excess of the goodwill carrying amount over the applied fair value is recognized as an impairment loss, and the carrying value of goodwill is written down to fair value.

During the years ended December 31, 2019, 2018 and 2017, no impairment of goodwill has been identified.

The intangible assets of the Company are not considered to have an indefinite useful life and are amortized over their useful lives. Customer relationships are amortized over their estimated useful lives in proportion to the economic benefits realized. This accounting policy results in accelerated amortization of such assets as compared to the straight-line method. Acquired technology and non-competition agreements are amortized on a straight-line basis.

k. Impairment of long-lived assets and intangible assets subject to amortization:

Property, plant and equipment and intangible assets subject to amortization are reviewed for impairment in accordance with ASC No. 360, "Accounting for the Impairment or Disposal of Long-Lived Assets," whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future undiscounted cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

During the years ended December 31, 2019, 2018 and 2017, no impairment losses were recorded.

l. Revenue recognition:

The Company generates revenues from sales of systems, consumables and services. The Company generates revenues from sale of its products directly to end-users and indirectly through independent distributors, all of whom are considered end-users.

The Company recognizes revenues in accordance with ASC No. 606, "Revenue from Contracts with Customers". As such, the Company recognizes revenue under the core principle that transfer of control to the Company's customers should be depicted in an amount reflecting the consideration the Company expects to receive in revenue. Therefore, the Company identifies a contract with a customer, identifies the performance obligations in the contract, determines the transaction price, allocates the transaction price to each performance obligation in the contract and recognizes revenues when, or as, the Company satisfies a performance obligation.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands, except share and per share data**

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**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

Revenues from products, which consist of systems and consumables, are recognized at the point of time when control has transferred, in accordance with the agreed-upon delivery terms. Revenues from services are derived mainly from the sale of print heads, spare parts, upgrade kits and sale of service contracts. The Company's print heads, spare parts and upgrade kits revenues (collectively "Spare parts") are recognized at the point of time when control has transferred, in accordance with the agreed-upon delivery terms. Service contracts are recognized over time, on a straight-line basis, over the period of the service.

For multiple performance obligations arrangements, such as selling a system with service contract, installation and training, the Company accounts for each performance obligation separately as it is distinct. The transaction price is allocated to each distinct performance obligation on a relative standalone selling price ("SSP") basis and revenue is recognized for each performance obligation when control has passed. In most cases, the Company is able to establish SSP based on the observable prices of services sold separately in comparable circumstances to similar customers and for products based on the Company's best estimates of the price at which the Company would have sold the product regularly on a stand-alone basis. The Company reassesses the SSP on a periodic basis or when facts and circumstances change.

The Company does not account for training and installation as a separate performance obligation due to its immateriality in the context of its contracts. Accordingly, revenues from training and installation are recognized upon the delivery of its systems.

The Company periodically provides customer incentive programs in the form of product discounts, volume-based rebates and warrants (see also note 10f), which are accounted for as a variable consideration that are deducted from revenue in the period in which the revenue is recognized. These reductions to revenue are made based upon reasonable and reliable estimates that are determined according to historical experience and the specific terms and conditions of the incentive.

Although, in general, the Company does not grant rights of return, there are certain instances where such rights are granted. The Company maintains a provision for returns which is estimated, based primarily on historical experience as well as management judgment, and is recorded as reduction of revenue. Such provision amounted to \$721 and \$570 as of December 31, 2019 and 2018, respectively and is included in accrued expenses and other current liabilities in the consolidated balance sheet.

Contract liabilities include amounts received from customers for which revenue has not yet been recognized. Contract liabilities amounted to \$2,867 and \$3,931 as of December 31, 2019 and 2018, respectively and are presented under deferred revenues and advances from customers and other long-term liabilities. During the year ended December 31, 2019, the Company recognized revenues in the amount of \$1,560 which have been included in the contract liabilities at January 1, 2019.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

U.S. dollars in thousands, except share and per share data

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

In cases where the Company's customers trade-in old systems as part of sales of new systems, the fair value of the old systems is recorded as inventory, provided that such value can be determined.

Revenue disaggregated by revenue source consists of the following:

	<b>Year ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
Systems	\$ 91,353	\$ 65,825	\$ 50,498
Ink and consumables	65,241	59,904	51,455
Spare parts	16,884	12,377	9,652
Service contracts	6,388	4,267	2,483
Total revenue	<u>\$ 179,866</u>	<u>\$ 142,373</u>	<u>\$ 114,088</u>

The following table presents revenue disaggregated by geography based on customer location:

	<b>Year ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
U.S	\$ 100,457	\$ 77,652	\$ 60,541
EMEA	48,810	45,195	32,015
Asia Pacific	22,101	15,572	16,092
Other	8,498	3,954	5,440
Total revenue	<u>\$ 179,866</u>	<u>\$ 142,373</u>	<u>\$ 114,088</u>

Remaining performance obligations represents contracted revenues that have not yet been recognized, which includes deferred revenues and non-cancelable contracts that will be invoiced and recognized as revenue in future periods. The following table represents the remaining performance obligations as of December 31, 2019, which are expected to be satisfied and recognized in future periods:

	<b>2020</b>	<b>2021</b>	<b>2022 and thereafter</b>
Services	<u>\$ 5,219</u>	<u>\$ 483</u>	<u>\$ 17</u>

The Company elected to apply the optional exemption under paragraph 606-10-50-14(a) not to disclose the remaining performance obligations that relate to contracts with an original expected duration of one year or less for which deferred revenues have not been recorded yet.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

U.S. dollars in thousands, except share and per share data

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

## m. Shipping and Handling:

Shipping and handling fees charged to the Company's customers are recognized as revenue in the period shipped and the related costs for providing these services are recorded as a cost of revenues. Revenues from shipping in the years ended December 31, 2019, 2018 and 2017 were \$1,639, \$1,702 and \$1,355, respectively.

## n. Cost of revenues:

Cost of revenues is comprised mainly of cost of systems and ink production, employees' salaries and related costs, allocated overhead expenses, import taxes, royalties and shipping and handling fees.

## o. Warranty costs:

The Company typically provides assurance type warranty for six months on the systems including parts and labor. A provision is recorded for estimated warranty costs at the time revenues are recognized based on historical warranty costs and management's estimates. Factors that affect the Company's warranty liability include the number of systems, historical rates of warranty claims and cost per claim. The Company periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts thereof as necessary.

The followings are the changes in the liability for product warranty from January 1, 2018 to December 31, 2019:

Balance at January 1, 2018	\$ 1,777
Provision for warranties issued during the year	3,381
Reduction for payments and costs to satisfy claims	<u>(2,921)</u>
Balance at December 31, 2018	2,237
Provision for warranties issued during the year	2,977
Reduction for payments and costs to satisfy claims	<u>(3,600)</u>
Balance at December 31, 2019	<u>\$ 1,614</u>

## p. Research and development expenses:

Research and development expenses are charged to the statement of operations, as incurred, except for development expenses which are capitalized as described in note 2q.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

U.S. dollars in thousands, except share and per share data

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

## q. Internal use software:

The Company capitalizes qualifying costs incurred during the application development stage related to software developed for internal use. These costs are capitalized based on qualifying criteria. Such costs are amortized over the software's estimated life of three years. Costs incurred to develop software applications consist of (a) certain external direct costs of materials and services incurred in developing or obtaining internal-use computer software, and (b) payroll and payroll-related costs for employees who are directly associated with, and who devote time to, the development or implementation of the software. Capitalized internal-use software costs are included in intangibles assets, net in the consolidated balance sheet.

## r. Restructuring:

Restructuring consists of costs primarily related to early retirement or retention agreements with employees of the Company's Wisconsin facility in connection with the transition of its U.S headquarters to the East Coast in the United States.

## s. Accounting for share-based compensation:

The Company accounts for share based compensation in accordance with ASC No. 718, "Compensation - Stock Compensation" ("ASC No. 718") that requires companies to estimate the fair value of equity-based payment awards on the date of grant using an option-pricing model. The value of the award is recognized as an expense over the requisite service periods in the Company's consolidated statement of operations.

The Company selected the binomial option pricing model as the most appropriate fair value method for its stock options awards with the following assumptions for the years ended December 31, 2019, 2018 and 2017:

	Year ended December 31,		
	2019	2018	2017
Suboptimal exercise multiple	1.0-1.5	1.0-1.5	1.0-1.5
Risk free interest rate	1.5%-2.7%	2.0%-3.1%	2.2%-2.3%
Volatility	47%-48%	47%-51%	51%-53%
Dividend yield	0%	0%	0%

The expected volatility is based on volatility of the Company's share price and similar companies whose share prices are publicly available over an historical period equivalent to the option's expected term. The computation of the suboptimal exercise multiple based on empirical studies, the early exercise factor of public companies is approximately 100% for employees and 150% for managers.

The interest rate for period within the contractual life of the award is based on the U.S. Treasury Bills yield curve in effect at the time of grant. The Company currently has no plans to distribute dividends and intends to retain future earnings to finance the development of its business.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands, except share and per share data**

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**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

The fair value of each restricted stock unit (“RSU”) is the market value as determined by the closing price of the common share prior to the day of grant.

The Company recognizes compensation expenses for the value of its awards, which have graded vesting based on service conditions, using the straight-line method, over the requisite service period of each of the awards. The Company recognizes forfeitures of awards as they occur.

t. Derivatives and hedging:

The Company follows FASB ASC No. 815, “Derivatives and Hedging” which requires companies to recognize all of their derivative instruments as either assets or liabilities in the statement of financial position at fair value. Accounting for changes in fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging transaction and further, on the type of hedging transaction. For those derivative instruments that are designated and qualify as hedging instruments, a company must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge, cash flow hedge, or a hedge of a net investment in a foreign operation. Due to the Company’s global operations, it is exposed to foreign currency exchange rate fluctuations in the normal course of its business.

The Company uses derivative financial instruments, specifically foreign currency forward and option contracts (“Hedging Contracts”), to manage exposure to foreign currency risks, by hedging a portion of the Company’s forecasted payroll and related expenses denominated in New Israeli Shekels expected to incur within a year. The effect of exchange rate changes on foreign currency hedging contracts is expected to partially offset the effect of exchange rate changes on the underlying hedged item.

For derivative instruments that are designated and qualify as a cash flow hedge (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the gain or loss on the derivative instrument is reported as a component of other comprehensive income (loss) and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains or losses from contracts that were not designated as hedging instruments are recognized in “financial income (expenses), net”.

The Company measured the fair value of these contracts in accordance with ASC No. 820, “Fair Value Measurements and Disclosures” (“ASC No. 820”), and they were classified as level 2 of the fair value hierarchy.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

U.S. dollars in thousands, except share and per share data

**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

## 1. Derivative instruments notional amounts

The following table summarizes the notional amounts for hedged items, when transactions are designated as hedge accounting:

	<u>December 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Cash flow hedge	<u>\$ 6,399</u>	<u>\$ 10,581</u>

## 2. Derivative instrument outstanding

As of December 31, 2019 and 2018, the fair value of the Company's outstanding forward and option contracts amounted to \$16 and \$(111) which is included within "Other accounts receivable and prepaid expenses" and "Other payables and accrued expenses", respectively on the balance sheets.

## 3. Derivative instrument gains and losses

During the year ended December 31, 2019, 2018 and 2017, the company recorded pretax income (expenses) of \$16, \$(21) and \$18, respectively from derivatives designated in cash flow hedging relationships.

The Company's outstanding derivatives designated as cash flow hedging instruments and their related gains and losses, are reported in the statement of cash flows as cash flows from operating activities.

The maximum length of time over which the Company is hedging its exposure to the variability in future cash flows for forecasted transactions is less than 12 months.

## u. Advertising:

Advertising costs are charged to operations as incurred and were \$1,981, \$1,077 and \$612 for the years ended December 31, 2019, 2018 and 2017, respectively.

## v. Income taxes:

The Company accounts for income taxes and uncertain tax positions in accordance with ASC No. 740, "Income Taxes" ("ASC No. 740"). ASC No. 740 prescribes the use of the liability method, whereby deferred tax asset and liability account balances are determined based on temporary differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company provides a valuation allowance, if necessary, to reduce deferred tax assets to amounts more likely than not to be realized. Deferred tax assets and liabilities are classified to non-current assets and liabilities, respectively.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands, except share and per share data**

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**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

ASC No. 740 contains a two-step approach to recognizing and measuring a liability for uncertain tax positions. The first step is to evaluate the tax position taken or expected to be taken in a tax return by determining if the weight of available evidence indicates that it is more likely than not that, on an evaluation of the technical merits, the tax position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. The Company accrues interest and penalties related to unrecognized tax benefits on its taxes on income.

w. Concentrations of credit risks:

Financial instruments that potentially subject the Company and its subsidiaries to concentrations of credit risk consist principally of cash and cash equivalents, bank deposits, marketable securities, foreign exchange contracts and trade receivables.

The majority of the Company's and its subsidiaries' cash and cash equivalents, bank deposits and marketable securities are invested in major banks in Israel and the U.S. Generally, these cash equivalents may be redeemed upon demand and, therefore management believes that it bears a lower risk.

The Company attempts to limit its exposure to interest rate risk by investing in securities with maturities of less than three years; however, the Company may be unable to successfully limit its risk to interest rate fluctuations. At any time, a sharp rise in interest rates could have a material adverse impact on the fair value of its investment portfolio. Conversely, declines in interest rates could have a material favorable impact on the fair value of its investment portfolio. Increases or decreases in interest rates could have a material impact on interest earnings related to new investments during the period.

The trade receivables of the Company and its subsidiaries are mainly derived from sales to customers located in the United States, Europe, the Middle East, Africa and Asia Pacific. The Company performs ongoing credit evaluations of its customers. In certain circumstances, the Company may require from its customers letters of credit, other collateral or additional guarantees. An allowance for doubtful accounts is determined with respect to those amounts that the Company has determined to be doubtful of collection. Historically, the Company has not recorded allowance for doubtful accounts, however certain immaterial bad debt expenses amounting to \$26, \$19 and \$97 were recorded for the years ended December 31, 2019, 2018 and 2017 respectively.

x. Severance pay:

The Company's employees in Israel have subscribed to Section 14 of Israel's Severance Pay Law, 5723-1963 ("Section 14"). Pursuant to Section 14, the Company's employees, covered by this section, are entitled only to monthly deposits, at a rate of 8.33% of their monthly salary, made on their behalf by the Company. Payments in accordance with Section 14 release the Company from any future severance liabilities in respect of those employees. Neither severance pay liability nor severance pay fund under Section 14 for such employees is recorded on the Company's balance sheet.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands, except share and per share data**

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**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

With regards to employees in Israel that are not subject to Section 14, the Company's liability for severance pay is calculated pursuant to the Severance Pay Law, based on the most recent salary of the relevant employees multiplied by the number of years of employment as of the balance sheet date. These employees are entitled to one-month salary for each year of employment or a portion thereof. The Company's liability for these employees is fully provided for via monthly deposits with severance pay funds, insurance policies and an accrual. The value of these deposits is recorded as an asset with other assets on the Company's balance sheet.

The deposited funds include profits accumulated up to the balance sheet date. The deposited funds may be withdrawn only upon the fulfillment of the obligation pursuant to the Severance Pay Law or labor agreements.

Severance expenses for the years ended December 31, 2019, 2018 and 2017 were \$1,808, \$1,483 and \$1,394 respectively.

y. Fair value of financial instruments:

The Company applies ASC No. 820 Under this standard, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date.

In determining fair value, the Company uses various valuation approaches. ASC No. 820 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The hierarchy is broken down into three levels based on the inputs as follows:

- Level 1 - Valuations based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access at the measurement date.
- Level 2 - Valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.
- Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands, except share and per share data**

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**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

The carrying amount of cash, cash equivalents, short term bank deposits, trade receivables, other accounts receivable, trade payables and other accounts payable and accrued expenses approximates their fair value due to the short-term maturities of such instruments.

The Company measures its marketable securities and foreign currency derivative instruments at fair value. Marketable securities and foreign currency derivative instruments are classified within Level 2 as the valuation inputs are based on quoted prices and market observable data of similar instruments.

z. Comprehensive income:

The Company accounts for comprehensive income in accordance with FASB ASC No. 220, "Comprehensive Income." Comprehensive income generally represents all changes in shareholders' equity during the period except those resulting from investments by, or distributions to, shareholders. The Company determined that its items of other comprehensive income relate to gains and losses on hedging derivative instruments, unrealized gains and losses on marketable securities and unrealized gain and losses from foreign currency translation adjustments.

aa. Basic and diluted earnings per share:

Basic earnings per share is computed based on the weighted average number of ordinary shares outstanding during each period. Diluted earnings per share is computed based on the weighted average number of ordinary shares outstanding during each period, plus dilutive potential ordinary shares considered outstanding during the period, in accordance with ASC No. 260, "Earnings Per Share".

The total number of shares related to the outstanding options and RSU's excluded from the calculation of diluted earnings per share due to their anti-dilutive effect was 536,359 and 884,028 for the years ended December 31, 2019 and 2018, respectively. For the year ended December 31, 2017, all outstanding options and RSU's have been excluded from the calculation of the diluted earnings per share since their effect was anti-dilutive.

bb. Recently adopted accounting standard:

1. In June 2018, the FASB issued ASU No. 2018-07, "Compensation - Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting." These amendments expand the scope of Topic 718, Compensation - Stock Compensation (which currently only includes share-based payments to employees) to include share-based payments issued to nonemployees for goods or services. Consequently, the accounting for share-based payments to nonemployees and employees will be substantially aligned. This ASU supersedes Subtopic 505-50, Equity - Equity-Based Payments to Non-Employees. The guidance is effective for the interim and annual periods beginning after December 15, 2018, and early adoption is permitted. The Company adopted this update as of January 1, 2019 with no material impact on its consolidated financial statements.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands, except share and per share data**

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**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

2. In November 2019, the FASB issued ASU No. 2019-08, "Compensation - Stock Compensation (Topic 718) and Revenue from Contract with Customers (Topic 606): Codification Improvements Share-Based Consideration Payable to a Customer." These amendments expand the scope of Topic 718, Compensation - Stock Compensation to include share-based payments issued to customers in conjunction with selling goods or services. Consequently, the accounting for share-based payments to customers will be measured and classified according to Topic 718. The guidance is effective for the interim and annual periods beginning after December 15, 2018, and early adoption is permitted. The Company adopted this update as of January 1, 2019 and used the fair value of the share-based payments on the adoption date.

See note 10g for additional disclosures.

3. In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2016-02 (Topic 842) "Leases." Topic 842 supersedes the lease requirements in Accounting Standards Codification (ASC) Topic 840, "Leases." Under Topic 842, lessees are required to recognize assets and liabilities on the balance sheet for most leases and provide enhanced disclosures.

On January 1, 2019, the Company adopted Topic 842 and elected the available practical expedient to recognize the cumulative effect of initially adopting Topic 842 as an adjustment to the opening balance sheet of the period of adoption (i.e., January 1, 2019). The Company also elected the other available practical expedients and will not separate lease components from non-lease components, will not reassess whether contracts are or contain leases, lease classification, or initial direct costs for existing leases as of January 1, 2019. In addition, the Company elected not to apply the transition requirements for leases for which the lease term is less than 12 months. The consolidated balance sheets and results from operations for reporting periods beginning after January 1, 2019 are presented under Topic 842, while prior period amounts are not adjusted and continue to be reported in accordance with the historic accounting under Topic 840.

The Company leases real estate, cars and storage areas, all classified as operating leases. In addition to rent payments, the leases may require the Company to pay for insurance, maintenance and other operating expenses.

The Company determines if an arrangement is a lease at inception. Lease classification is governed by five criteria in ASC 842-10-25-2. If any of these five criteria is met, the Company classifies the lease as a finance lease. Otherwise, The Company classifies the lease as an operating lease. As of December 31, 2019, all arrangements were classified as operating leases.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands, except share and per share data**

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**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

Operating leases are included in operating lease right-of-use (“ROU”) assets and operating lease liabilities in the consolidated balance sheets. ROU assets represent The Company’s right to use an underlying asset for the lease term and lease liabilities represent the Company’s obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. The Company uses its incremental borrowing rate based on the information available at the commencement date to determine the present value of the lease payments. Operating lease expenses are recognized on a straight-line basis over the lease term. Several of the Company’s leases include option to extend the lease and some have termination options that are factored into the Company’s determination of the lease payments when appropriate. For purposes of calculating lease liabilities, lease terms include options to extend or terminate the lease when it is reasonably certain that the company will exercise such options. Some of the lease agreements include rental payments adjusted periodically for inflation. The Company’s lease agreements do not contain any material residual value guarantees.

The new standard also provides practical expedients for an entity’s ongoing accounting. The Company elected the short-term lease recognition exemption for all leases with a term shorter than 12 months. This means that for those leases, the Company does not recognize ROU assets or lease liabilities, including not recognizing ROU assets or lease liabilities for existing short-term leases of those assets in transition, but recognizes lease expenses over the lease term on a straight-line basis. The Company also elected the practical expedient to not separate lease and non-lease components for all of the Company’s leases.

The Company does not believe the new lease standard will have a notable impact on its liquidity. The new standard will have no impact on the Company’s financial covenant compliance under its credit lines.

The Company recorded upon adoption as of January 1, 2019, right-of-use leased assets and corresponding liabilities of \$14,905.

See note 13 for additional disclosures.

4. In August 2017, the FASB issued ASU No. 2017-12 (Topic 815) Derivatives and Hedging — Targeted Improvements to Accounting for Hedging Activities, which expands an entity’s ability to hedge financial and nonfinancial risk components and amends how companies assess effectiveness as well as changes the presentation and disclosure requirements. The new standard is to be applied on a modified retrospective basis and is effective for interim and annual periods beginning after December 15, 2018, with early adoption permitted. The Company adopted the provisions of this update as of January 1, 2019 with no material impact on its consolidated financial statements.

See note 2t for additional disclosures.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands, except share and per share data**

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**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

cc. Impact of recently issued accounting standard and not yet adopted:

1. In June 2016, the FASB issued Accounting Standards Update No. 2016-13 (ASU 2016-13) "Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" which requires the measurement and recognition of expected credit losses for financial assets held at amortized cost. ASU 2016-13 replaces the existing incurred loss impairment model with an expected loss methodology, which will result in more timely recognition of credit losses. ASU 2016-13 is effective for annual reporting periods, and interim periods within those years, beginning after December 15, 2019. The Company does not expect this ASU to have a material impact on its consolidated financial statements and related disclosures.
2. In January 2017, the FASB issued Accounting Standards Update No. 2017-04 (ASU 2017-04) "Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment." ASU 2017-04 eliminates step two of the goodwill impairment test and specifies that goodwill impairment should be measured by comparing the fair value of a reporting unit with its carrying amount. Additionally, the amount of goodwill allocated to each reporting unit with a zero or negative carrying amount of net assets should be disclosed. ASU 2017-04 is effective for annual or interim goodwill impairment tests performed in fiscal years beginning after December 15, 2019, with early adoption permitted. The Company does not expect that this new guidance will have a material impact on the Company's Consolidated Financial Statements.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

U.S. dollars in thousands, except share and per share data

**NOTE 3:- ACQUISITION**

On February 7, 2019 (the "Closing Date"), the Company, through its wholly owned subsidiary Kornit Digital North America Inc., acquired the business and certain assets of Hirsch Solutions Inc., ("Hirsch") its distributor in North America. Under the related acquisition agreement, the total consideration of \$4,715 was paid at the closing date.

In addition, the Company incurred acquisition-related costs in a total amount of \$85. Acquisition-related costs include legal, accounting, consulting fees and other external costs directly related to the acquisition.

The main reasons for this acquisition are to improve connectivity with customers by expanding leadership position in the digital textile market as well as providing direct access to a large number of traditional screen-printing customers.

Purchase price allocation:

Under business combination accounting principles, the total purchase price was allocated to Hirsch's net tangible and intangible assets based on their estimated fair values as set forth below. The excess of the purchase price over the net tangible and identifiable intangible assets was recorded as goodwill.

The purchase price allocation for the acquisition has been determined at the follows:

	<u>Fair Value</u>	<u>Amortization period (years)</u>
<u>Tangible Assets</u>		
Inventory	\$ 3,353	
<u>Intangible Assets:</u>		
Customer Relationships (*)	\$ 890	5.9
Goodwill	<u>472</u>	Infinite
Total purchase price	<u>\$ 4,715</u>	

(\*) Customer relationships represent the underlying relationships and agreements with Hirsch's installed customer base and are amortized over the useful life of the agreements using accelerated method.

In performing the purchase price allocation, the Company considered, among other factors, analysis of historical financial performance, the best use of the acquired assets and estimates of future performance of Hirsch's installed base. In its allocation, applying the market's participant approach, the Company determined the fair values of the acquired inventory based on estimated selling price adjusted for cost of selling efforts and a reasonable profit allowance and the acquired customer relationships based on their future expected cash flows.

Pro forma results of operations related to this acquisition have not been prepared because they are not material to the Company's consolidated statements of operations.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

## NOTE 4:- FAIR VALUE MEASUREMENTS

The following is a summary of marketable securities:

	December 31, 2019			
	Amortized cost	Gross unrealized gain	Gross unrealized loss	Fair value
Matures within one year:				
Corporate debentures	\$ 27,624	\$ 24	\$ (11)	\$ 27,637
Government debentures	4,930	-	-	4,930
	<u>32,554</u>	<u>24</u>	<u>(11)</u>	<u>32,567</u>
Matures after one year through three years:				
Corporate debentures	91,887	575	(117)	92,345
Government debentures	3,030	21	(3)	3,048
	<u>94,917</u>	<u>596</u>	<u>(120)</u>	<u>95,393</u>
Total	<u>\$ 127,471</u>	<u>\$ 620</u>	<u>\$ (131)</u>	<u>\$ 127,960</u>
	December 31, 2018			
	Amortized cost	Gross unrealized gain	Gross unrealized loss	Fair value
Matures within one year:				
Corporate debentures	\$ 3,999	\$ -	\$ (18)	\$ 3,981
	<u>3,999</u>	<u>-</u>	<u>(18)</u>	<u>3,981</u>
Matures after one year through three years:				
Corporate debentures	33,698	29	(346)	33,381
Government debentures	11,360	-	(138)	11,222
	<u>45,058</u>	<u>29</u>	<u>(484)</u>	<u>44,603</u>
Total	<u>\$ 49,057</u>	<u>\$ 29</u>	<u>\$ (502)</u>	<u>\$ 48,584</u>

Investments with continuous unrealized losses for less than 12 months and 12 months or greater and their related fair values were as follows:

	December 31, 2019					
	Less than 12 months		12 months or greater		Total	
	Fair value	Unrealized Losses	Fair value	Unrealized Losses	Fair value	Unrealized Losses
Corporate debentures	\$ 57,753	\$ (127)	\$ 3,801	\$ (1)	\$ 61,554	\$ (128)
Government debentures	2,552	(3)	-	-	2,552	(3)
Total	<u>\$ 60,305</u>	<u>\$ (130)</u>	<u>\$ 3,801</u>	<u>\$ (1)</u>	<u>\$ 64,106</u>	<u>\$ (131)</u>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

U.S. dollars in thousands, except share and per share data

**NOTE 4:- FAIR VALUE MEASUREMENTS (Cont.)**

	December 31, 2018					
	Less than 12 months		12 months or greater		Total	
	Fair value	Unrealized Losses	Fair value	Unrealized Losses	Fair value	Unrealized Losses
Corporate debentures	\$ 12,017	\$ (126)	\$ 16,547	\$ (238)	\$ 28,564	\$ (364)
Government debentures	8,864	(117)	2,357	(21)	11,221	(138)
<b>Total</b>	<b>\$ 20,881</b>	<b>\$ (243)</b>	<b>\$ 18,904</b>	<b>\$ (259)</b>	<b>\$ 39,785</b>	<b>\$ (502)</b>

The below table sets forth the Company's assets and liabilities that were measured at fair value as of December 31, 2019 and 2018 by level within the fair value hierarchy.

	December 31, 2019			
	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Marketable securities	\$ -	\$ 127,960	\$ -	\$ 127,960
Foreign currency derivative contracts	-	16	-	16
<b>Total financial assets</b>	<b>\$ -</b>	<b>\$ 127,976</b>	<b>\$ -</b>	<b>\$ 127,976</b>
<b>December 31, 2018</b>				
	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Marketable securities	\$ -	\$ 48,584	\$ -	\$ 48,584
<b>Total financial assets</b>	<b>\$ -</b>	<b>\$ 48,584</b>	<b>\$ -</b>	<b>\$ 48,584</b>
<b>Liabilities:</b>				
Foreign currency derivative contracts	\$ -	\$ 111	\$ -	\$ 111
<b>Total financial liabilities</b>	<b>\$ -</b>	<b>\$ 111</b>	<b>\$ -</b>	<b>\$ 111</b>

**NOTE 5:- INVENTORIES**

	December 31,	
	2019	2018
Raw materials and components	\$ 21,402	\$ 17,425
Finished products (*)	16,075	12,605
	<b>\$ 37,477</b>	<b>\$ 30,030</b>

(\*) Including amounts of \$0 and \$836 for the years ended December 31, 2019 and 2018, respectively, with respect to inventory delivered to customers for which revenue was not yet recognized.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

## NOTE 6:- PROPERTY, PLANT AND EQUIPMENT, NET

	December 31,	
	2019	2018
Cost:		
Computer and peripheral equipment	\$ 3,748	\$ 3,182
Office furniture and equipment	1,818	1,757
Machinery and equipment	13,823	12,230
Leasehold improvements	8,337	8,505
Building and land	6,524	3,343
	<u>34,250</u>	<u>29,017</u>
Accumulated depreciation	(16,761)	(14,023)
Property, plant and equipment, net	<u>\$ 17,489</u>	<u>\$ 14,994</u>

Depreciation expenses for the years ended December 31, 2019, 2018 and 2017 were \$3,611, \$3,900 and \$3,505 respectively.

During the years ended December 31, 2019, 2018 and 2017, the Company recorded a reduction of \$868, \$861 and \$298, respectively to the cost and accumulated depreciation of fully depreciated equipment no longer used.

## NOTE 7:- INTANGIBLE ASSETS, NET

a. Intangible assets are comprised of the following:

	Weighted average amortization period Years	December 31,	
		2019	2018
Original amount:			
Acquired technology	8.14	\$ 1,566	\$ 1,566
Customer relationships	5.23	3,504	2,614
Non-competition agreement	4	265	265
Software development costs	3	1,199	-
Distribution rights	1	250	-
		<u>\$ 6,784</u>	<u>\$ 4,445</u>
Accumulated amortization:			
Acquired technology		1,066	966
Customer relationships		2,849	2,302
Non-competition agreement		232	166
Software development costs		-	-
Distribution rights		143	-
		<u>4,290</u>	<u>3,434</u>
Intangible assets, net		<u>\$ 2,494</u>	<u>\$ 1,011</u>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

U.S. dollars in thousands, except share and per share data

**NOTE 7:- INTANGIBLE ASSETS, NET (Cont.)**

Amortization expenses for the years ended December 31, 2019, 2018 and 2017 were \$856, \$1,065 and \$1,309, respectively.

- b. Future amortization expenses for the years ending:

**December 31,**

2020	\$	828
2021		697
2022		608
2023		208
2024 and thereafter		153
	<b>\$</b>	<b>2,494</b>

**NOTE 8:- OTHER PAYABLES AND ACCRUED EXPENSES**

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
Government authorities	\$ 564	\$ 253
Warranty provision	1,433	1,909
Provision for returns	721	570
Professional services	565	412
Payment obligation related to acquisition	-	303
Accrued expenses	3,090	1,546
	<b>\$ 6,373</b>	<b>\$ 4,993</b>

**NOTE 9:- COMMITMENTS AND CONTINGENT LIABILITIES**

- a. Charges:

As of December 31, 2019, the Company has two lines of credit with Israeli banks for total borrowings of up to \$3 million. These lines of credit are unsecured and available provided that the Company maintains a 30% ratio of total tangible shareholders' equity to total tangible assets and that the total credit use will be less than 70% of the Company and its subsidiaries' receivables. Interest rates across these credit lines varied from 0.2% to Prime (Israel Interbank Offered Rate) +0.7% (current 2.3%) as of December 31, 2019.

As of December 31, 2019, the Company has not utilized its line of credits.

- b. Purchase commitments:

As of December 31, 2019, the Company has \$26,367 of purchase commitments for goods and services from vendors. These commitments are due primarily within one year.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands, except share and per share data**

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**NOTE 9:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)**

## c. Litigation:

From time to time, the Company is party to various legal proceedings, claims and litigation that arise in the normal course of business. It is the opinion of management that the ultimate outcome of these matters will not have a material adverse effect on the Company's financial position, results of operations or cash flows.

## d. Royalty Commitments:

Under the Company's agreement for purchasing print heads and other products, which was amended in 2016, the Company is obligated to pay 2.5% royalties of its annual ink revenues up to an annual maximum amount of \$625.

Royalties expenses for the years ended December 31, 2019, 2018 and 2017 were \$625.

## e. Guarantees:

As of December 31, 2019, the Company provided two bank guarantees in a total amount of \$400 for its rented facilities.

**NOTE 10:- SHAREHOLDERS' EQUITY**

## a. Company's shares:

## 1. Ordinary shares:

Any ordinary share confers equal rights to dividends and bonus shares, and to participate in the distribution of surplus assets upon liquidation in proportion to the par value of each share regardless of any premium paid thereon, all subject to the provisions of the Company's articles of association. Each ordinary share confers its holder the right to participate in the general meeting of the Company and one vote in the voting.

2. On December 7, 2018, the Company made an underwritten secondary offering of 3,132,481 ordinary shares, by the Company's major shareholder. The Company did not receive any of the proceeds from the sale of these ordinary shares.

3. On June 18, 2019, the Company closed a follow on and secondary offering where by 4,991,000 ordinary shares were sold in the transaction to the public. The aggregate net proceeds received by the Company from the offering were \$129,710, net of underwriting discounts, commissions and offering expenses.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

## NOTE 10:- SHAREHOLDERS' EQUITY (Cont.)

## b. Share option and RSU's plans:

The Company's Board of Directors approved Equity Incentive Plans pursuant to which the Company is authorized to issue to employees, directors and officers of the Company and its subsidiaries (the "optionees") options to purchase ordinary shares of NIS 0.01 par value each, at an exercise price equal to at least the fair market value of the ordinary shares at the date of grant. 25% of total options are exercisable one year after the date determined for each optionee and a further 6.25% at the end of each subsequent three-month period for 3 years. Options are exercisable for up to 10 years from the grant date of the options. Options that are cancelled or forfeited before expiration become available for future grants.

Under the Equity Incentive Plans and starting 2017, the Company grants Restricted Stock Units ("RSUs"). The RSU's generally vest over a period of four years of employment. RSUs that are cancelled or forfeited become available for future grants.

During December 2019, the board of directors approved an increase in the ordinary shares reserved for issuance by 1,220,439 ordinary shares. As of December 31, 2019, an aggregate of 3,269,482 ordinary shares were available for future grants.

## c. A summary of the Company's share option activity and related information is as follows:

	Number of shares upon exercise	Weighted average exercise price	Weighted- average remaining contractual term (in years)	Aggregate intrinsic value
Outstanding at beginning of year	1,583,564	\$ 14.71	8.19	\$ 6,536
Granted	135,701	27.55	9.45	
Exercised	(472,980)	12.48		
Forfeited	(173,508)	16.40		
Outstanding at end of year	<u>1,072,777</u>	<u>\$ 17.17</u>	<u>7.73</u>	<u>\$ 18,170</u>
Exercisable at end of year	<u>455,735</u>	<u>\$ 14.03</u>	<u>6.88</u>	<u>\$ 9,152</u>

As of December 31, 2019, the Company had \$5,677 of unrecognized compensation expense related to non-vested share options expected to be recognized over a weighted average period of 2.58 years.

The weighted average fair value of options granted during the years ended December 31, 2019, 2018 and 2017 were \$14.51, \$9.5 and \$9.24 per share, respectively. The weighted average fair value of options vested during the year ended December 31, 2019 was \$8.13. The total intrinsic value of options exercised during the years ended December 31, 2019, 2018 and 2017 were \$6,742, \$11,775 and 10,588, respectively.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

## NOTE 10:- SHAREHOLDERS' EQUITY (Cont.)

- d. The options outstanding as of December 31, 2019, have been classified by exercise price, as follows:

Exercise price \$	Options outstanding at December 31, 2019			Options exercisable at December 31, 2019		
	Number outstanding	Weighted average exercise price \$	Weighted average remaining contractual term (in years) In years	Number outstanding	Weighted average exercise price \$	Weighted average remaining contractual term (in years) In years
2.07	37,490	2.07	4.87	37,490	2.07	4.87
9.38-9.97	62,751	9.97	4.83	62,751	9.97	4.83
10.05-11.90	141,548	10.31	6.59	71,389	10.16	6.56
12.97-15.80	129,542	15.26	7.01	88,210	15.01	6.61
16.15-18.05	199,547	17.97	7.64	79,613	17.97	15.37
18.80-19.05	345,611	18.81	8.57	109,822	18.82	8.53
21.15-28.15	156,288	26.86	9.45	6,460	22.16	8.59
	<u>1,072,777</u>			<u>455,735</u>		

- e. A summary of the Company's RSUs activity is as follows:

	Number of RSUs
Unvested at beginning of year	414,420
Granted	489,645
Vested	(155,160)
Forfeited	(70,602)
Unvested at the end of the year	<u>678,303</u>

The weighted average fair values at grant date of RSUs granted for the years ended December 31, 2019, 2018 and 2017 were \$28.50, \$17.1 and \$17.77, respectively. The total fair value of shares vested during the year ended December 31, 2019 was \$2,681.

As of December 31, 2019, the Company had 14,420 of unrecognized compensation expense related to RSUs, expected to be recognized over a weighted average period of 3.24 years.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

## NOTE 10:- SHAREHOLDERS' EQUITY (Cont.)

- f. The following table sets forth the total share-based compensation expense included in the consolidated statements of operations for the years ended December 31, 2019, 2018 and 2017:

	Year ended December 31,		
	2019	2018	2017
Cost of products	\$ 632	\$ 494	\$ 419
Cost of services	520	398	210
Research and development	1,294	1,022	775
Sales and marketing	1,689	1,240	920
General and administrative	2,479	2,392	2,087
<b>Total share-based compensation expense</b>	<b>\$ 6,614</b>	<b>\$ 5,546</b>	<b>\$ 4,411</b>

- g. On January 10, 2017, the Company signed a master purchase agreement with Amazon Inc. under which 2,932,176 warrants to purchase ordinary shares of the Company at an exercise price of \$13.04 were issued to Amazon as a customer incentive. The warrants are subject to vesting as a function of payments for purchased products and services of up to \$150 million over a five years period beginning on May 1, 2016, with the shares vesting incrementally each time Amazon makes a payment totaling \$5 million to the Company. As of December 31, 2019, 1,612,683 warrants are exercisable.

The Company recognized a reduction to revenues of \$5,094, \$4,576 and \$2,895 during the years ended December 31, 2019, 2018 and 2017, respectively.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

## NOTE 11:- EARNINGS (LOSSES) PER SHARE

The following table sets forth the computation of basic and diluted earnings (losses) per share:

	Year ended December 31,		
	2019	2018	2017
<b>Numerator for basic and diluted earnings (losses) per share:</b>			
Net income (loss)	\$ 10,167	\$ 12,429	\$ (2,015)
<b>Weighted average ordinary shares outstanding:</b>			
Denominator for basic earnings (losses) per share	38,079,394	34,521,352	33,574,147
Effect of dilutive securities:			
Employee share options and restricted share units	1,214,721	842,352	-
Denominator for diluted earnings (losses) per share	39,294,115	35,363,704	33,574,147
Basic earnings (losses) per share	\$ 0.27	\$ 0.36	\$ (0.06)
Diluted earnings (losses) per share	\$ 0.26	\$ 0.35	\$ (0.06)

## NOTE 12:- ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table summarizes the changes in accumulated balances of other comprehensive income (loss), net of taxes, for the year ended December 31, 2019:

	Unrealized Gains (losses) on marketable securities	Unrealized Gains (losses) on cash flow hedges	Foreign currency translation adjustment	Total
Beginning balance	\$ (437)	\$ (93)	\$ 292	\$ (238)
Other comprehensive income before reclassifications	1,160	132	90	1,382
Amounts reclassified from accumulated other comprehensive income	(271)	(30)	-	(301)
Net current period other comprehensive income	889	102	90	1,081
Ending Balance	\$ 452	\$ 9	\$ 382	\$ 843

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

U.S. dollars in thousands, except share and per share data

**NOTE 13:- LEASES**

The components of lease expense for the year ended December 31, 2019 were as follows:

	<b>Year ended December 31, 2019</b>
Operating lease	\$ 3,857
Short-term lease	131
<b>Total lease expense</b>	<b>\$ 3,988</b>

Cash paid for amounts included in the measurement of operating lease liabilities was \$3,910 during the year ended December 31, 2019.

The Company's operating lease agreements have remaining lease terms ranging from 1 year to 11 years, including agreements with options to extend the leases for up to 5 years.

The following table represents the weighted-average remaining lease term and discount rate:

	<b>Year ended December 31, 2019</b>
Weighted average remaining lease term	9.3 years
Weighted average discount rate	3.1%

The discount rate was determined based on the estimated collateralized borrowing rate of the Company, adjusted to the specific lease term and location of each lease.

Maturities of operating lease liabilities were as follows:

	<b>Year ended December 31, 2019</b>
2020	\$ 4,341
2021	3,750
2022	2,938
2023	2,284
2024 and after	13,003
<b>Total operating lease payments</b>	<b>\$ 26,316</b>
Less: imputed interest	3,183
<b>Present value of lease liabilities</b>	<b>\$ 23,133</b>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands, except share and per share data**

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**NOTE 14:- TAXES ON INCOME**

## a. Tax rates:

Taxable income of the Israeli companies is subject to the Israeli corporate tax at the rate as follows: 2019 and 2018: 23%, and 2017: 24%.

## b. Tax benefits under the Law for the Encouragement of Capital Investments, 1959 (the "Law"):

The Company's production facilities in Israel have been granted "Beneficiary Enterprise" status under the Law. The Israeli companies have been granted the "Alternative Benefit Track" under which the main benefits are a tax exemption for undistributed income and a reduced tax rate.

The Israeli companies began to utilize such tax benefits in 2010. The entitlement to the above benefits is limited to the end of 2019, and it is conditional upon the Company and its Israeli subsidiary fulfilling the conditions stipulated by the Law and regulations published. In the event of failure to comply with these conditions, the benefits may be partially or fully canceled and the Company or its Israeli subsidiary may be required to refund the amount of the benefits, in whole or in part, plus a consumer price index linkage adjustment and including interest.

In the event of distribution of dividends from the above-mentioned tax-exempt income, the amount distributed will be subject to the same reduced corporate tax rate that would have been applied to the Beneficiary Enterprise's income.

In addition, tax-exempt income attributed to the Beneficiary Enterprise will subject the Company to taxes upon distribution in any manner including complete liquidation.

The Company does not intend to distribute any amounts of its undistributed tax-exempt income as dividend. The Company and its board of directors intend to reinvest its tax-exempt income and not to distribute such income as a dividend. Accordingly, no deferred income taxes have been provided on income attributable to the Company's Beneficiary Enterprise programs as the undistributed tax-exempt income is essentially permanent by reinvestment.

As of December 31, 2019, tax-exempt income of \$131,222 is attributable to the Company's and its Israeli subsidiary's various Beneficiary Enterprise programs. If such tax-exempt income is distributed, it would be taxed at the reduced corporate tax rate applicable to such income, and \$30,181 would be incurred as of December 31, 2019.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands, except share and per share data**

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**NOTE 14:- TAXES ON INCOME (Cont.)**

The Israeli subsidiary elected to apply the Preferred Enterprise regime under the January 2011 amendment to the Law as of 2013 tax year. The election is irrevocable. Under the Preferred Enterprise regime, a preferred income of an Enterprise located in the center of Israel is subject to tax rate of 16%.

Pursuant to Amendment 73 to the Law adopted in 2017, a Company that meets the conditions for “Preferred Technological Enterprises”, is subject to tax rate of 12% on income that qualifies as “Preferred Technology Income”, as define in the Law. The tax rate for a Preferred Technological Enterprises located in development zone A is 7.5%. The Company and its Israeli subsidiary believe they meets those conditions.

Tax benefits under the Israeli Law for the Encouragement of Industry (Taxation), 1969:

The Israeli companies are an “Industrial Company” as defined by the Israeli Law for the Encouragement of Industry (Taxation), 1969, and, as such, are entitled to certain tax benefits including accelerated depreciation, deduction of public offering expenses in three equal annual installments and amortization of other intangible property rights for tax purposes.

c. Income taxes of non-Israeli subsidiaries:

Non-Israeli subsidiaries are taxed according to the tax laws in their respective countries of residence.

Taxes were not provided for undistributed earnings of the Company’s foreign subsidiaries. The Company’s board of directors has determined that the Company does not currently intend to distribute any amounts of its undistributed earnings as dividend. The Company intends to reinvest these earnings indefinitely in the foreign subsidiaries. Accordingly, no deferred income taxes have been provided. If these earnings were distributed to Israel in the form of dividends or otherwise, the Company would be subject to additional Israeli income taxes (subject to an adjustment for foreign tax credits) and foreign withholding taxes.

The amount of undistributed earnings of foreign subsidiaries that are considered to be reinvested as of December 31, 2019 was \$9,874. If these undistributed earnings are distributed, they would be taxed at the corporate tax rate applicable to such income, and \$821 would be incurred as of December 31, 2019.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands, except share and per share data**

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**NOTE 14:- TAXES ON INCOME (Cont.)**

## d. Tax Reform in the U.S:

On December 22, 2017, the U.S. enacted the Tax Cuts and Jobs Act (the "Act"), which among other provisions, reduced the U.S. corporate tax rate from 35% to 21%, effective January 1, 2018.

At December 31, 2017, the Company re-measured its U.S. deferred tax assets and liabilities, based on the new rates at which they are expected to reverse in the future. The tax expense recorded in 2017, related to the re-measurement of the deferred tax balance was \$355.

## a. Tax assessments:

The Company and its Israeli subsidiary are currently subject to a tax audit for the years 2013 to 2016 by the Israeli Tax Authority ("ITA"). The company received an assessment for years 2013 and 2014 which is still subject to another review by the ITA before it is finalized. The company appealed before the second review and it believes the claims and the position taken on its tax returns are solid and valid. The ITA may furthermore disagree with the Company and its Israeli subsidiary positions taken for other years as well, and the Company may be subject to additional tax liabilities, which could have a material adverse effect on its results of operations.

The Company and its Israeli subsidiary received final tax assessments through 2012. The U.S and German subsidiaries received final tax assessment through 2012 and 2014 and the Hong Kong Subsidiary have not received a final tax assessment since inception.

## b. Carryforward losses for tax purposes:

Carryforward operating tax losses of the Company and its Israeli subsidiary total approximately \$63,660 as of December 31, 2019 and may be used indefinitely.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

U.S. dollars in thousands, except share and per share data

**NOTE 14:- TAXES ON INCOME (Cont.)**

## c. Deferred income taxes:

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's and its subsidiaries' deferred tax liabilities and assets are as follows:

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
Carryforward tax losses	\$ 3,282	\$ 3,538
Share-based compensation	1,569	976
R&D expenses	1,468	1,414
Other temporary differences	1,471	1,354
Deferred tax assets	7,790	7,282
Deferred tax liability due to property, plant and equipment	(9)	(10)
Deferred tax assets, net	<u>\$ 7,781</u>	<u>\$ 7,272</u>

The Company records net deferred tax assets to the extent it believes these assets will more likely than not be realized. As of each reporting date, management considers new evidence, both positive and negative, that could impact management's view with regards to the future realization of deferred tax assets for each jurisdiction.

Income (loss) before income taxes is comprised as follows:

	<b>Year ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
Domestic	\$ 7,343	\$ 4,458	\$ (3,328)
Foreign	3,568	2,579	1,697
Income (loss) before income taxes	<u>\$ 10,911</u>	<u>\$ 7,037</u>	<u>\$ (1,631)</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

## NOTE 14:- TAXES ON INCOME (Cont.)

- d. Taxes on income (tax benefits) are comprised as follows:

	Year ended December 31,		
	2019	2018	2017
Current taxes	\$ 677	\$ 1,088	\$ 509
Deferred taxes	67	(6,480)	(125)
	<u>744</u>	<u>(5,392)</u>	<u>384</u>
Domestic	\$ (337)	\$ (6,050)	\$ (594)
Foreign	1,081	658	978
	<u>744</u>	<u>(5,392)</u>	<u>384</u>

	Year ended December 31,		
	2019	2018	2017
Domestic taxes:			
Current taxes	\$ (208)	\$ 333	\$ (594)
Deferred taxes	(129)	(6,383)	-
	<u>(337)</u>	<u>(6,050)</u>	<u>(594)</u>
Foreign taxes:			
Current taxes	885	755	1,103
Deferred taxes	196	(97)	(125)
	<u>1,081</u>	<u>658</u>	<u>978</u>
Taxes on income	<u>\$ 744</u>	<u>\$ (5,392)</u>	<u>\$ 384</u>

- e. Uncertain tax positions:

A reconciliation of the beginning and ending amount of gross unrecognized tax benefits is as follows:

	December 31,	
	2019	2018
Beginning of year	\$ 2,240	\$ 1,521
Increases related to tax positions taken during prior years	51	452
Increases related to tax positions taken during the current year	662	313
Cumulative translation adjustments and other	86	(46)
Balance at December 31 *)	<u>\$ 3,039</u>	<u>\$ 2,240</u>

\*) As of December 31, 2019, and 2018 unrecognized tax benefit in the amount of \$1,880 and \$1,218 were presented as a reduction from deferred taxes.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**U.S. dollars in thousands, except share and per share data**

**NOTE 14:- TAXES ON INCOME (Cont.)**

The entire amount of the unrecognized tax benefits could affect the Company's income tax provision and the effective tax rate.

During the years ended December 31, 2019, 2018 and 2017, an amount of \$51, \$115 and \$54, respectively, was added to the unrecognized tax benefits derived from interest and indexation expenses related to prior years' uncertain tax positions. As of December 31, 2019, and 2018, the Company had accrued interest related to uncertain tax positions in the amounts of \$237 and \$171, which is included within income tax accrual on the balance sheets.

Exchange rate differences are recorded within financial income, net, while interest is recorded within income tax expense.

The Company believes that it has adequately provided for any reasonably foreseeable outcome related to tax audits and settlement. The final tax outcome of its tax audits could be different from that which is reflected in the Company's income tax provisions and accruals. Such differences could have a material effect on the Company's income tax provision and net income in the period in which such determination is made.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

## NOTE 14:- TAXES ON INCOME (Cont.)

- f. A reconciliation between the theoretical tax expense, assuming all income is taxed at the statutory tax rate applicable to income of the Company and the actual tax expense as reported in the statement of operations is as follows:

	Year ended December 31,		
	2019	2018	2017
Income (loss) before taxes, as reported in the consolidated statements of operations	\$ 10,911	\$ 7,037	\$ (1,631)
Theoretical tax expense (benefit) at the Israeli statutory tax rate	2,510	1,618	(392)
Tax adjustment in respect of different tax rate of foreign subsidiaries	151	43	111
Non-deductible expenses and other permanent differences	77	64	143
Deferred taxes on losses and other temporary differences for which valuation allowance was provided, net	-	(5,503)	1,899
Stock based compensation	1,247	1,161	996
Change in tax rate	-	-	355
Beneficiary enterprise benefits (*)	(3,935)	(3,469)	(2,360)
Increase (Decrease) in other uncertain tax positions	713	765	(376)
Other	(19)	(71)	8
Actual tax expense (benefit)	\$ 744	\$ (5,392)	\$ 384
(*) Basic and diluted earnings per share amounts of the benefit resulting from the "Beneficiary Enterprise" status	0.10	0.10	0.07

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

U.S. dollars in thousands, except share and per share data

**NOTE 15:- GEOGRAPHIC INFORMATION**

Summary information about geographic areas:

The Company operates in one reportable segment (see note 1 for a brief description of the Company's business). Operating segments are defined as components of an enterprise for which separate financial information is evaluated regularly by the chief operating decision maker, who is the chief executive officer, in deciding how to allocate resources and assessing performance. The Company's chief operating decision maker evaluates the Company's financial information and resources and assesses the performance of these resources on a consolidated basis.

The following table presents long-lived assets by geographic region as of December 31, 2019 and 2018:

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
U.S	\$ 1,782	\$ 1,839
Israel	15,253	12,581
EMEA	258	328
Asia Pacific	196	246
	<u>\$ 17,489</u>	<u>\$ 14,994</u>

Major customers' data as a percentage of total revenues:

The following table sets forth the customers that represented 10% or more of the Company's total revenues in each of the periods set forth below:

	<b>Year ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
Customer A	0%	15%	18%
Customer B	12%	17%	13%

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

U.S. dollars in thousands, except share and per share data

**NOTE 16:- SELECTED STATEMENTS OF OPERATIONS DATA**

Financial income, net:

	<b>Year ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
Financial income:			
Interest on bank deposits and other	\$ 2,535	\$ 406	\$ 69
Exchange rate differences, net	-	87	-
Realized gain on sale of marketable securities, net	271	-	34
Interest on marketable securities	1,975	2,107	1,896
Amortization of premium and accretion of discount on marketable securities, net	112	-	-
	<u>4,893</u>	<u>2,600</u>	<u>1,999</u>
Financial expenses:			
Bank charges	(405)	(299)	(244)
Exchange rate differences, net	(1,175)	-	(757)
Realized loss on sale of marketable securities, net	-	(480)	-
Amortization of premium and accretion of discount on marketable securities, net	-	(388)	(546)
	<u>(1,580)</u>	<u>(1,167)</u>	<u>(1,547)</u>
Total financial income:	<u>\$ 3,313</u>	<u>\$ 1,433</u>	<u>\$ 452</u>

**NOTE 17:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES**

The Company's policy is to enter into transactions with related parties on terms that, on the whole, are no less favorable, than those available from unaffiliated third parties. Based on the Company's experience in the business sectors in which it operates and the terms of its transactions with unaffiliated third parties, the Company believes that all of the transactions described below met this policy at the time they occurred.

1. Fritz Companies Israel T. Ltd. ("Fritz")

Fritz is a logistics company which is owned, in part, by the Chairman of the Board since March 2018. The Company has an ongoing logistic contract with Fritz. During the years ended December 31, 2019 and 2018 logistic service fees amounted to \$3,762 and \$2,673, respectively.

2. Accord Insurance Agency Ltd. ("Accord")

We maintain a business relationship with Accord Insurance Agency Ltd., or Accord, a company which is an insurance agency that is owned in part and controlled, by our Chairman of the Board, under which Accord is our insurance agent for most of our insurance policies. The policies in which Accord is our insurance agent, were purchased after a request for proposals procedure. During the years ended December 31, 2019, 2018 and 2017 total premium under the policies amounted to \$843, \$248 and \$248, respectively.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**U.S. dollars in thousands, except share and per share data****NOTE 17:- BALANCES AND TRANSACTIONS WITH RELATED PARTIES (Cont.)**3. Priority Software Ltd. (“Priority”)

Priority is the Company’s ERP solution provider, which is owned, in part by few of the Company’s Board members. During the years ended December 31, 2019, 2018 and 2017 maintenances fees and additional licenses acquired amounted to \$109, \$76 and \$90, respectively.

**NOTE 18:- SUBSEQUENT EVENT**

Towards the end of December 2019, an outbreak of a novel strain of coronavirus (COVID-19) emerged at first in China and then (in February and March 2020) globally. The Company's operations and financial performance could be adversely affected to the extent that coronavirus or any other epidemic harms the global economy. The Company may also be adversely impacted in particular if a health epidemic or other outbreak occurs in one or more of the Company's markets and unfavorably affects certain of its customers and/or suppliers. Further, the Company's operations have experienced, and may further experience, disruptions, such as temporary closure of its offices or manufacturing facility, and/or those of its customers or suppliers, and suspension of services, which will materially affect the Company's business, financial condition and results of operations. The duration of the business disruption and related financial impact cannot be reasonably estimated at this time.

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### **Description of Kornit Digital Ltd. Ordinary Shares**

The authorized share capital of Kornit Digital Ltd. (hereinafter, “we”, “us”, “our” or similar expressions) consists of NIS 2,000,000 divided into 200,000,000 ordinary shares, par value NIS 0.01 per share, or ordinary shares. As of February 28, 2020, 40,801,834 ordinary shares were issued and outstanding.

#### **Registration Number and Purposes of the Company**

Our registration number with the Israeli Registrar of Companies is 51-3195420. Our purpose as set forth in our articles of association, or articles, is to engage in any lawful activity.

#### **Voting Rights**

All ordinary shares have identical voting and other rights in all respects.

#### **Transfer of Shares**

Our fully paid ordinary shares are issued in registered form and may be freely transferred under our articles, unless the transfer is restricted or prohibited by another instrument, applicable law or the rules of a stock exchange on which the shares are listed for trade. The ownership or voting of our ordinary shares by non-residents of Israel is not restricted in any way by our articles or the laws of the State of Israel, except for ownership by nationals of some countries that are, or have been, in a state of war with Israel.

#### **Election of Directors**

Our ordinary shares do not have cumulative voting rights for the election of directors. As a result, the holders of a majority of the voting power represented at a shareholders meeting have the power to elect all of our directors, subject to the special approval requirements for external directors, to the extent we are then required to elect external directors.

Under our articles, our board of directors must consist of not less than five but no more than nine directors, including, when we are required, two external directors who serve pursuant to the Israeli Companies Law, 5759-1999, or the Companies Law. Pursuant to our articles, each of our directors (other than, when applicable, external directors, for whom special election requirements apply under the Companies Law), will be appointed by a simple majority vote of holders of our voting shares, participating and voting at an annual general meeting of our shareholders. In addition, our directors (other than the external directors, when applicable) are divided into three classes that are each elected at the third annual general meeting of our shareholders, in a staggered fashion (such that one class is elected each annual general meeting), and serve on our board of directors unless they are removed by a vote of 65% of the total voting power of our shareholders at a general meeting of our shareholders or upon the occurrence of certain events, in accordance with the Companies Law and our articles. In addition, our articles allow our board of directors to fill vacancies on the board of directors or to appoint new directors up to the maximum number of directors permitted under our articles. Such directors serve for a term of office equal to the remaining period of the term of office of the director(s) whose office(s) have been vacated or in the case of new directors, for a term of office according to the class to which such director was assigned upon appointment. We are not currently required to have external directors serving on our board of directors, based on an exemption that we have elected to be governed by under the Companies Law regulations.

#### **Dividend and Liquidation Rights**

We may declare a dividend to be paid to the holders of our ordinary shares in proportion to their respective shareholdings. Under the Companies Law, dividend distributions are determined by the board of directors and do not require the approval of the shareholders of a company unless the company's articles of association provide otherwise. Our articles do not require shareholder approval of a dividend distribution and provide that dividend distributions may be determined by our board of directors.

Pursuant to the Companies Law, the distribution amount is limited to the greater of retained earnings or earnings generated over the previous two years, according to our then last reviewed or audited financial statements, provided that the end of the period to which the financial statements relate is not more than six months prior to the date of the distribution. If we do not meet such criteria, we may only distribute dividends with court approval. In each case, we are only permitted to distribute a dividend if our board of directors and the court, if applicable, determines 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.

In the event of our liquidation, after satisfaction of liabilities to creditors, our assets will be distributed to the holders of our ordinary shares in proportion to their shareholdings. This right, as well as the right to receive dividends, 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.

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## Exchange Controls

There are currently no Israeli currency control restrictions on remittances of dividends on our ordinary shares, proceeds from the sale of the shares or interest or other payments to non-residents of Israel, except for shareholders who are subjects of countries that are, or have been, in a state of war with Israel.

## Shareholder Meetings

Under Israeli law, we are required to hold an annual general meeting of our shareholders once every calendar year that must be held no later than 15 months after the date of the previous annual general meeting. All meetings other than the annual general meeting of shareholders are referred to in our articles as special general meetings. Our board of directors may call special general meetings whenever it sees fit, at such time and place, within or outside of Israel, as it may determine. In addition, the Companies Law provides that our board of directors is required to convene a special general meeting upon the written request of (i) any two of our directors or one-quarter of the members of our board of directors or (ii) one or more shareholders holding, in the aggregate, either (a) 5% or more of our outstanding issued shares and 1% of our outstanding voting power or (b) 5% or more of our outstanding voting power.

Subject to the provisions of the Companies Law and the regulations promulgated thereunder, shareholders entitled to participate and vote at general meetings are the shareholders of record on a date to be decided by the board of directors, which may be between four and 40 days prior to the date of the meeting. Furthermore, the Companies Law requires that resolutions regarding the following matters must be passed at a general meeting of our shareholders:

- amendments to our articles;
- appointment or termination of our auditors;
- appointment of external directors;
- approval of certain related party transactions;
- increases or reductions of our authorized share capital;
- a merger; and
- the exercise of our board of director's powers by a general meeting, if our board of directors is unable to exercise its powers and the exercise of any of its powers is required for our proper management.

The Companies Law and our articles require that notice of any annual general meeting or special general meeting be provided to shareholders at least 21 days prior to the meeting and if the agenda of the meeting includes, among other matters, the appointment or removal of directors, the approval of transactions with office holders or interested or related parties, approval of the company's general manager to serve as the chairman of its board of directors or an approval of a merger, notice must be provided at least 35 days prior to the meeting.

The Companies Law allows one or more of our shareholders holding at least 1% of the voting power of a company to request the inclusion of an additional agenda item for an upcoming shareholders meeting, assuming that it is appropriate for debate and action at a shareholders meeting. Under applicable regulations, such a shareholder request must be submitted within three or, for certain requested agenda items, seven days following our publication of notice of the meeting. If the requested agenda item includes the appointment of director(s), the requesting shareholder must comply with particular procedural and documentary requirements. If our board of directors determines that the requested agenda item is appropriate for consideration by our shareholders, we must publish an updated notice that includes such item within seven days following the deadline for submission of agenda items by our shareholders. The publication of the updated notice of the shareholders meeting does not impact the record date for the meeting. In lieu of this process, we may opt to provide pre-notice of our shareholders meeting at least 21 days prior to publishing official notice of the meeting. In that case, our 1% shareholders are given a 14-day period in which to submit proposed agenda items, after which we must publish notice of the meeting that includes any accepted shareholder proposals.

Under the Companies Law and under our articles, shareholders are not permitted to take action by way of written consent in lieu of a meeting.

## **Voting Rights**

### ***Quorum requirements***

Pursuant to our articles, holders of our ordinary shares have one vote for each ordinary share held on all matters submitted to a vote before the shareholders at a general meeting. As a foreign private issuer, the quorum required for our general meetings of shareholders consists of at least two shareholders present in person, by proxy or written ballot who hold or represent between them at least 25% of the total outstanding voting rights. A meeting adjourned for lack of a quorum is generally adjourned to the same day in the following week at the same time and place or to a later time or date if so, specified in the notice of the meeting. At the reconvened meeting, any number of shareholders present in person or by proxy shall constitute a quorum, unless a meeting was called pursuant to a request by our shareholders, in which case the quorum required is one or more shareholders, present in person or by proxy and holding the number of shares required to call the meeting as described under “—Shareholder Meetings.”

### ***Vote Requirements***

Our articles provide that all resolutions of our shareholders require a simple majority vote, unless otherwise required by the Companies Law or by our articles. Under the Companies Law, each of (i) the approval of an extraordinary transaction with a controlling shareholder and (ii) the terms of employment or other engagement of the controlling shareholder of the company or such controlling shareholder’s relative (even if such terms are not extraordinary) require the approval of the company’s audit committee (or compensation committee with respect to compensation arrangements), board of directors and shareholders, in that order. In addition, the shareholder approval must fulfill one of the following requirements:

- at least a majority of the shares held by all shareholders who do not have a personal interest in the transaction and who are present and voting at the meeting approves the transaction, excluding abstentions; or
- the shares voted against the transaction by shareholders who have no personal interest in the transaction and who are present and voting at the meeting do not exceed 2% of the voting rights in the company.

Additionally:

(i) the approval and extension of a compensation policy and certain deviations therefrom require the approval of compensation committee, board of directors and shareholders, in that order. In addition, the shareholder approval must be by a majority vote of the shares present and voting at a meeting of shareholders called for such purpose, provided that either: (a) such majority includes at least a majority of the shares held by all shareholders who are not controlling shareholders and do not have a personal interest in such compensation policy; or (b) the total number of shares of non-controlling shareholders who do not have a personal interest in the compensation policy and who vote against the arrangement does not exceed 2% of the company’s aggregate voting rights;

(ii) the terms of employment or other engagement of the chief executive officer of the company require compensation committee, board of directors and shareholders, in that order (the shareholder approval must be by a majority vote of the shares present and voting at a meeting of shareholders called for such purpose, provided that either: (a) such majority includes at least a majority of the shares held by all shareholders who are not controlling shareholders and do not have a personal interest in such compensation; or (b) the total number of shares of non-controlling shareholders who do not have a personal interest in the compensation and who vote against the arrangement does not exceed 2% of the company’s aggregate voting rights); and

(iii) the chairman of a company’s board of directors also serving as its chief executive officer requires the same approval as applies to (i) and (ii) above (substituting the personal interest in the service of the chairman as chief executive officer in place of personal interest in the compensation).

Under our articles, the alteration of the rights, privileges, preferences or obligations of any class of our shares requires a simple majority of all classes of shares voting together as a single class at a shareholder meeting (without a separate vote of the class that is affected). Our articles also require that the removal of any director from office (other than our external directors) or the amendment of the provisions of our articles relating to our staggered board requires the vote of 65% of the voting power of our shareholders. Another exception to the simple majority vote requirement is a resolution for the voluntary winding up, or an approval of a scheme of arrangement or reorganization, of the company pursuant to Section 350 of the Companies Law, which requires the approval of holders of 75% of the voting rights represented at the meeting, in person or by proxy and voting on the resolution.

### **Access to Corporate Records**

Under the Companies Law, shareholders are provided access to: minutes of our general meetings; our shareholders register and principal shareholders register, articles of association and annual audited financial statements; and any document that we are required by law to file publicly with the Israeli Companies Registrar or the Israel Securities Authority. These documents are publicly available and may be found and inspected at the Israeli Registrar of Companies. In addition, shareholders may request to be provided with any document related to an action or transaction requiring shareholder approval under the related party transaction provisions of the Companies Law. We may deny this request if we believe it has not been made in good faith or if such denial is necessary to protect our interest or protect a trade secret or patent.

## **Modification of Class Rights**

Under our articles, the rights attached to any class of share, such as voting, liquidation and dividend rights, may be amended by adoption of a resolution by the holders of a simple majority of all classes of shares voting together as a single class at a shareholder meeting (without a separate vote of the class that is affected).

## **Registration Rights**

Under a transaction agreement to which we are party with Amazon Corporate LLC, a subsidiary of Amazon.com, Inc., which we collectively refer to as Amazon, Amazon is entitled to certain registration rights commencing on January 10, 2018. Under that agreement, (1) Amazon may request up to two times in any 12-month period that we file a shelf registration statement on Form F-3 or S-3 and we are required to keep the shelf registration effective for four 90-day periods, (2) if we are ineligible to file a registration statement on Form F-3 or Form S-3, Amazon may request up to four times that we file a long form registration statement to facilitate the sale of its shares, and (3) Amazon is entitled to piggyback registration rights on underwritten offerings effected by us. We are subject to customary obligations upon Amazon's request for registration, including cooperation in case of an underwritten offering.

## **Acquisitions under Israeli Law**

### *Full Tender Offer.*

A person wishing to acquire shares of an Israeli public company and who would as a result hold over 90% of the target company's issued and outstanding share capital is required by the Companies Law to make a tender offer to all of the company's shareholders for the purchase of all of the issued and outstanding shares of the company. A person wishing to acquire shares of a public Israeli company and who would as a result hold over 90% of the issued and outstanding share capital of a certain class of shares is required to make a tender offer to all of the shareholders who hold shares of the relevant class for the purchase of all of the issued and outstanding shares of that class. If the shareholders who do not accept the offer hold less than 5% of the issued and outstanding share capital of the company or of the applicable class, and more than half of the shareholders who do not have a personal interest in the offer accept the offer, all of the shares that the acquirer offered to purchase will be transferred to the acquirer by operation of law. However, a tender offer will also be accepted if the shareholders who do not accept the offer hold less than 2% of the issued and outstanding share capital of the company or of the applicable class of shares.

Upon a successful completion of such a full tender offer, any shareholder that was an offeree in such tender offer, whether such shareholder accepted the tender offer or not, may, within six months from the date of acceptance of the tender offer, petition an Israeli court to determine whether the tender offer was for less than fair value and that the fair value should be paid as determined by the court. However, under certain conditions, the offeror may include in the terms of the tender offer that an offeree who accepted the offer will not be entitled to petition the Israeli court as described above.

If a tender offer is not accepted in accordance with the requirements set forth above, the acquirer may not acquire shares from shareholders who accepted the tender offer that will increase its holdings to more than 90% of the company's issued and outstanding share capital or of the applicable class.

### *Special Tender Offer.*

The Companies Law provides that an acquisition of shares of an Israeli public company must be made by means of a special tender offer if as a result of the acquisition the purchaser would become a holder of 25% or more of the voting rights in the company. This requirement does not apply if there is already another holder of at least 25% of the voting rights in the company. Similarly, the Companies Law 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 the purchaser would become a holder of more than 45% of the voting rights in the company, if there is no other shareholder of the company who holds more than 45% of the voting rights in the company, subject to certain exceptions.

A special tender offer must be extended to all shareholders of a company, but the offeror is not required to purchase shares representing more than 5% of the voting power attached to the company's outstanding shares, regardless of how many shares are tendered by shareholders. A special tender offer may be consummated only if (i) the offeror acquired shares representing at least 5% of the voting power in the company and (ii) the number of shares tendered by shareholders who accept the offer exceeds the number of shares held by shareholders who object to the offer (excluding the purchaser, controlling shareholders, holders of 25% or more of the voting rights in the company or any person having a personal interest in the acceptance of the tender offer, including their relatives and companies under their control). If a special tender offer is accepted, the purchaser or any person or entity controlling it or under common control with the purchaser or such controlling person or entity may not make a subsequent tender offer for the purchase of shares of the target company and may not enter into a merger with the target company for a period of one year from the date of the offer, unless the purchaser or such person or entity undertook to effect such an offer or merger in the initial special tender offer.

## *Merger*

The Companies Law permits merger transactions if approved by each party's board of directors and, unless certain requirements described under the Companies Law are met, by a majority vote of each party's shareholders. In the case of the target company, approval of the merger further requires a majority vote of each class of its shares.

For purposes of the shareholder vote, unless a court rules otherwise, the merger will not be deemed approved if a majority of the votes of shares represented at the meeting of shareholders that are held by parties other than the other party to the merger, or by any person (or group of persons acting in concert) who holds (or hold, as the case may be) 25% or more of the voting rights or the right to appoint 25% or more of the directors of the other party, vote against the merger. If, however, the merger involves a merger with a company's own controlling shareholder or if the controlling shareholder has a personal interest in the merger, then the merger is instead subject to the same special majority approval that governs all extraordinary transactions with controlling shareholders (as described above under "Vote Requirements").

If the transaction would have been approved by the shareholders of a merging company but for the separate approval of each class or the exclusion of the votes of certain shareholders as provided above, a court may still approve the merger upon the petition of holders of at least 25% of the voting rights of a company. For such petition to be granted, the court must find that the merger is fair and reasonable, taking into account the respective values assigned to each of the parties to the merger and the consideration offered to the shareholders of the target company.

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 the merging entities, and may further give instructions to secure the rights of creditors.

In addition, a merger may not be consummated unless at least 50 days have passed from the date on which a proposal for approval of the merger is filed with the Israeli Registrar of Companies and at least 30 days have passed from the date on which the merger was approved by the shareholders of each party.

### **Anti-takeover Measures under Israeli Law**

The Companies Law allows us to create and issue shares having rights different from those attached to our ordinary shares, including shares providing certain preferred rights with respect to voting, distributions or other matters and shares having preemptive rights. No preferred shares are authorized under our articles. In the future, if we do authorize, create and issue a specific class of preferred shares, such class of shares, depending on the specific rights that may be attached to it, may have the ability to frustrate or prevent a takeover or otherwise prevent our shareholders from realizing a potential premium over the market value of their ordinary shares. The authorization and designation of a class of preferred shares will require an amendment to our articles, which requires the prior approval of the holders of a majority of the voting power attaching to our issued and outstanding shares at a general meeting. The convening of the meeting, the shareholders entitled to participate, and the majority vote required to be obtained at such a meeting will be subject to the requirements set forth in the Companies Law as described above in "Voting Rights."

### **Borrowing Powers**

Pursuant to the Companies Law and our articles, our board of directors may exercise all powers and take all actions that are not required under law or under our articles to be exercised or taken by our shareholders, including the power to borrow money for company purposes.

### **Changes in Capital**

Our articles enable us to increase or reduce our share capital. Any such changes are subject to Israeli law and must be approved by a resolution duly passed by our shareholders at a general meeting by voting on such change in the capital. In addition, transactions that have the effect of reducing capital, such as the declaration and payment of dividends in the absence of sufficient retained earnings or profits, require the approval of both our board of directors and an Israeli court.

[\*\*\*] Certain identified information in this Amendment 1 to Master Purchase Agreement has been excluded because it is both (i) not material, and (ii) would be competitively harmful if publicly disclosed.

#### AMENDMENT 1 TO MASTER PURCHASE AGREEMENT

Komit Digital Ltd. (“**Supplier**”) and Amazon Corporate LLC and its affiliates (“**Amazon**”) entered into a Master Purchase Agreement effective May 1, 2016 (as modified, supplemented or amended, the “**Agreement**”). Supplier and Amazon now enter into this Amendment to the Agreement (the “**Amendment**”), effective as of March 1, 2017. This Amendment is made a part of the Agreement. All capitalized terms not defined in this Amendment have the meanings set forth in the Agreement.

The parties agree as follows:

- The “**Printers**” Section of **Schedule 1 (Pricing)** of the Agreement is replaced in its entirety with the following:

##### Printers

##### **Purchase Price**

Over any [\*\*\*] period starting on May 1, 2016 or its anniversary (each, a “Printer Measurement Period”). Purchaser must purchase printers from Supplier for:

Number of Printers Ordered by Purchaser during Applicable Printer Measurement Period	Cost per AV-1000 printer	Cost per AV-1000 R-Series printer
[***]	[***]	[***]
[***]	[***]	[***]

##### **Rebate Terms**

Upon Purchaser’s placement of an order which would result in [\*\*\*] printers having been invoiced or ordered for immediate shipment within a Printer Measurement Period, a rebate equal to [\*\*\*] of the total cost of the [\*\*\*] printers (the “Printer Volume Rebate”) will be applied to the order. If the total amount of the order is less than the Printer Volume Rebate, then Supplier will credit any remainder of the Printer Volume Rebate against any Purchaser accounts receivable outstanding at the time of the order. If after such credit is applied any portion of the Printer Volume Rebate remains, Supplier will remit payment of such remainder to Amazon within 30 days of the applicable order.

##### **Shipping**

[\*\*\*]. Shipping costs to Purchaser-designated locations in the United States shall not exceed (“Max Printer Shipping Charge”):

- Via Sea Freight – [\*\*\*] per printer Product unit
- Via Air Freight - [\*\*\*] per printer Product unit
- 

The Max Printer Shipping Charge for shipping to locations outside of the United States will be agreed upon by the parties prior to shipment.

The parties will discuss the Max Printer Shipping Charge at least once a year and may adjust the Max Printer Shipping Charge by mutual written agreement. The Max Printer Shipping Charge may be exceeded only if agreed to by [\*\*\*] prior to shipment.

- The provisions of this Amendment will control over any inconsistent provision of the Agreement. The Agreement will remain in full force and effect.
- This Amendment may be executed by facsimile or electronic scan and in counterparts, each of which will be deemed an original, but all of which together will constitute one and the same instrument.

By signature below, the duly authorized representatives of the parties agree to the terms and conditions of this Amendment.

---

**SUPPLIER:**

**Kornit Digital, Ltd.**

**By:** /s/ Guy Avidan

**Name:** Guy Avidan

**Title:** CFO

**Date Signed:** March 27, 2017

**By:** /s/ Gabi Seligsohn

**Name:** Gabi Seligsohn

**Title:** CEO

**Date Signed:** April 6, 2017

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**AMAZON:**

**Amazon Corporate LLC**

**By:** /s/ Young Lee

**Name:** Young Lee

**Title:** VP, Business Development

**Date Signed:** April 6, 2017

[\*\*\*] Certain identified information in this Amendment 2 to Master Purchase Agreement has been excluded because it is both (i) not material, and (ii) would be competitively harmful if publicly disclosed.

## AMENDMENT 2 TO MASTER PURCHASE AGREEMENT

Komit Digital Ltd. (“Supplier”) and Amazon Corporate LLC and its affiliates (“Amazon”) entered into a Master Purchase Agreement effective May 1, 2016 (as modified, supplemented or amended, the “Agreement”). Supplier and Amazon now enter into this Amendment to the Agreement (the “Amendment”), effective as of January 1st, 2018. This Amendment is made a part of the Agreement. All capitalized terms not defined in this Amendment have the meanings set forth in the Agreement.

The parties agree as follows:

- The “Printers” Section of Schedule 1 (Pricing) of the Agreement is replaced in its entirety with the following:

### Printers

#### *Purchase Price*

Beginning January 1, 2018, and thereafter over any [\*\*\*] period starting on January 1, 2018 or its anniversary (each, a “Printer Measurement Period”), Purchaser may purchase printers from Supplier for:

<u>Pricing Tier</u>	<u>Total Number of Printers Ordered by Purchaser during Applicable Printer Measurement Period</u>	<u>Cost per AV- 1000 R-Series printer</u>	<u>Cost per AV-HD6 printer</u>
1	[***]	[***]	[***]
2	[***]	[***]	[***]
3	[***]	[***]	[***]
4	[***]	[***]	[***]

Notwithstanding the aforementioned, with respect to the Printer Measurement Period commencing on January 1, 2018 and ending [\*\*\*] thereafter (and for the avoidance of doubt, solely for such period), Purchaser shall be deemed to have purchased [\*\*\*] printers upon the commencement of such period, such that each printer purchased shall be charged according to the second, third or fourth pricing tier, as applicable. Example for clarification purposes: if the Purchaser purchased [\*\*\*] printers during the Printer Measurement Period which starts on January 1, 2018, it shall be charged according to the second pricing tier.

#### *Rebate Terms*

Upon Purchaser’s placement of an order completing the range of units in any pricing tier, a rebate equal to the sum of the number of the printers purchased in that pricing tier and the printers purchased in all previous pricing tiers within the same Printer Measurement Period, multiplied by [\*\*\*] (the “Printer Volume Rebate”) will be applied to the order. The Printer Volume Rebate will be based on the total number of printers invoiced or ordered for immediate shipment within a Printer Measurement Period. For example, if Purchaser purchases [\*\*\*] AV-HD6 printers within a Printer Measurement Period, Purchaser shall receive a rebate of [\*\*\*] (calculated as [\*\*\*] printers multiplied by [\*\*\*]); and if Purchaser purchases [\*\*\*] AV-HD6 printers within that same period, Purchaser shall receive an additional rebate of [\*\*\*] (calculated as [\*\*\*] printers multiplied by [\*\*\*]). For sake of clarity, purchases from all territories shall count towards the total number of printers ordered, and the total number of printers ordered is also cumulative across printer models (e.g. a purchase of 10 AV-1000 R-Series printers and 15 AV-HD6 printers would count as 25 printers ordered).



If the total amount of the order is less than Printer Volume Rebate, then Supplier will credit any remainder of the Printer Volume Rebate against any Purchaser accounts receivable outstanding at the time of the order. If after such credit is applied any portion of the Printer Volume Rebate remains, Supplier will remit payment of such remainder to Amazon within 30 days of the applicable order.

*Shipping*

[\*\*\*]  
Shipping costs to Purchaser designated locations shall not exceed (“Max Printer Shipping Charge”):

- Via Sea Freight – [\*\*\*] per printer Product unit
- Via Air Freight – [\*\*\*] per printer Product unit

The parties will discuss the Max Printer Shipping Charge at least once a year and may adjust the Max Printer Shipping Charge by mutual written agreement. The Max Printer Shipping Charge may be exceeded only if agreed to by [\*\*\*] prior to shipment.

2. The “Ink” Section of Schedule 1 (Pricing) of the Agreement is replaced in its entirety with the following:

*Purchase Price*

Beginning January 1, 2018, and thereafter, over any [\*\*\*] period starting on January 1, 2018 or its anniversary (each, an “Ink Measurement Period”), Purchaser may purchase ink from Supplier for:

<b>Liters of Ink Ordered by Purchaser during Applicable Ink Measurement Period</b>	<b>Cost per liter</b>
[***]	[***]
[***]	[***]
[***]	[***]
[***]	[***]

Notwithstanding the aforementioned, with respect to the Ink Measurement Period commencing on January 1, 2018 and ending [\*\*\*] thereafter (and for the avoidance of doubt, solely for such period), Purchaser shall be deemed to have purchased [\*\*\*] liters of ink upon the commencement of such period, such that each liter of ink purchased shall cost according to the third or fourth pricing tier, as applicable. Example for clarification purposes: if the Purchaser purchased [\*\*\*] liters of ink during the Ink Measurement Period which starts on January 1, 2018, it shall be charged according to the third pricing tier.

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### *Rebate Terms*

- Upon Purchaser's placement of an order which would result in [\*\*\*] liters of ink having been invoiced or ordered for immediate shipment within an Ink Measurement Period, a rebate of [\*\*\*] will be applied to the order.
- Upon Purchaser's placement of an order which would result in [\*\*\*] liters of ink having been invoiced or ordered for immediate shipment within an Ink Measurement Period, a rebate of [\*\*\*] will be applied to the order.
- Upon Purchaser's placement of an order which would result in [\*\*\*] liters of ink having been invoiced or ordered for immediate shipment within an Ink Measurement Period, a rebate of [\*\*\*] will be applied to the order.
- The ink rebates above are incremental and additive to each other (e.g., if [\*\*\*] liters are ordered, Amazon will receive both of the [\*\*\*] rebates, i.e. a total rebate of [\*\*\*]).
- If the total amount of the order is less than the ink rebate, then Supplier will credit any remainder of the applicable ink rebate against any Purchaser accounts receivable outstanding at the time of the order. If after such credit is applied, any portion of the applicable ink rebate remains, Supplier will remit payment of such remainder to Amazon within 30 days of the applicable order.

### *Shipping*

Ink shall be shipped to the Purchaser-designated location at [\*\*\*] charge to [\*\*\*].

3. The following shall be added to the "Upgrades" Section of Schedule 1 (Pricing) of the Agreement following the "Rebate Terms" section:

#### AV-HD6 Upgrades

Following Purchaser's ordering [\*\*\*] AV-HD6 printers, Supplier agrees to upgrade [\*\*\*] of Purchaser's existing AV-1000 and AV-1000 R-Series printers with an AV-HD6 upgrade kit (the "**Upgraded Systems**") for the total of [\*\*\*]. For the avoidance of doubt, this price represents a quantity equal to [\*\*\*] Upgraded Systems. Upgrade to the Upgraded Systems will include bulk ink delivery system for [\*\*\*] liters included within the cost of the upgrade.

Supplier acknowledges that time is of the essence with respect to the installation of the Upgraded Systems, and Supplier undertakes that the Upgraded Systems will be installed by October 1, 2018, provided that the purchase order, or otherwise written commitment (email shall suffice), for the above-mentioned Upgraded Systems is received by Komit no later than March 30<sup>th</sup>, 2018.

If Supplier fails to install any Upgraded System by October 1, 2018, and the delay is not attributable to (a) delays attributable to Purchaser, (b) a Force Majeure Event, Purchaser will receive credits against the charges due for those delayed Upgraded Systems as follows:

- (i) For each Upgraded System installed between October 2, 2018 and October 15, 2018 - [\*\*\*] credit;
- (ii) For each Upgraded System installed on or after October 16, 2018 - [\*\*\*] credit.

Each Upgraded System shall improve ink consumption efficiency by [\*\*\*]% (with [\*\*\*]% tolerance) compared to the current AV-1000 R-Series and [\*\*\*]% compared to the AVK (with [\*\*\*]% tolerance).

In the event that an Upgraded System does not achieve the ink consumption improvement detailed above, as shall be determined by the parties' mutual consent, Purchaser shall receive credit for future purchases in the amount of \$[\*\*\*] for each Upgraded System that does not present the expected improvement, up to a maximum of \$[\*\*\*] across all Upgraded Systems. In the event that Purchaser does not raise any claim with respect to the ink consumption by December 31, 2018, it will be deemed that the ink consumption was improved, as detailed above.

#### Shipping

For Upgraded Systems shipped via air freight, [\*\*\*] and such cost shall not exceed [\*\*\*] per Upgraded System. Supplier shall obtain Purchaser's approval for all air freight shipments prior to shipment. [\*\*\*] shall bear all shipping costs for any Upgraded Systems shipped via air freight without [\*\*\*]'s approval. Supplier shall make commercially reasonable efforts to ensure that no more than [\*\*\*]% of Upgraded Systems will require air freight to complete installation by October 1, 2018.

For Upgraded Systems shipped via sea freight, Upgraded Systems shall be shipped to the Purchaser designated location at [\*\*\*] charge to [\*\*\*].

#### Warranty

Notwithstanding anything contrary in the Agreement, the Warranty Period for each Upgraded System shall be the longer of: (i) the remainder of the Warranty Period of the printer Product unit which was upgraded pursuant to the terms of this Amendment, or (ii) three (3) months following the date of installation of the Upgraded System. For sake of clarity, the installation of the Upgraded System shall not effect Purchaser's ability to purchase additional Warranty Period Extensions for the Upgraded Systems.

4. The provisions of this Amendment will control over any inconsistent provision of the Agreement. The Agreement, will remain in full force and effect.
5. This Amendment may be executed by facsimile or electronic scan and in counterparts, each of which will be deemed an original, but all of which together will constitute one and the same instrument.

By signature below, the duly authorized representatives of the parties agree to the terms and conditions of this Amendment.

#### **SUPPLIER:**

**Kornit Digital Ltd.**

By: /s/ Guy Avidan  
Name: Guy Avidan  
Title: CFO  
Date Signed: May 2, 2018

By: /s/ Gabi Seligsohn  
Name: Gabi Seligsohn  
Title: CEO  
Date Signed: May 2, 2018

#### **PURCHASER:**

**Amazon Corporate LLC**

By: /s/ Miguel Roque  
Name: Miguel Roque  
Title: Vice President  
Date Signed: May 7, 2018

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[\*\*\*] Certain identified information in this Amendment 3 to Master Purchase Agreement has been excluded because it is both (i) not material, and (ii) would be competitively harmful if publicly disclosed.

AMENDMENT 3 TO MASTER PURCHASE AGREEMENT

Kornit Digital Ltd. (“Supplier”) and Amazon.com Services Inc., f/k/a Amazon Corporate LLC and its affiliates (“Amazon”) entered into a Master Purchase Agreement effective May 1, 2016 (as modified, supplemented or amended, the “Agreement”). Supplier and Amazon now enter into this Amendment to the Agreement (the “Amendment”), effective as of June 29, 2018. This Amendment is made a part of the Agreement. All capitalized terms not defined in this Amendment have the meanings set forth in the Agreement.

The parties agree as follows:

- 1. Supplier has entered into or intends to enter into Amazon’s Vendor Terms and Conditions (“Vendor Terms”). Supplier and Amazon intend for all procurement related to [\*\*\*] by Amazon business to be governed by the Agreement, rather than by the Vendor Terms. Therefore, notwithstanding anything to the contrary in the Vendor Terms, the terms of the Agreement will apply to all Purchase Orders and Work Orders issued in accordance with the Agreement by Amazon EU SARL or Amazon Fulfillment Poland.

By signature below, the duly authorized representatives of the parties agree to the terms and conditions of this Amendment.

SUPPLIER:

Kornit Digital Ltd.

By: /s/ Guy Avidan  
Name: Guy Avidan  
Title: CFO  
Date Signed: August 4, 2018

PURCHASER:

Amazon.com Services Inc.

By: /s/ Miguel Roque  
Name: Miguel Roque  
Title: Authorized Representative  
Date Signed: August 7, 2018

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## MANUFACTURING SERVICES AGREEMENT

**[\*\*\*] Certain identified information in this Manufacturing Services Agreement has been excluded because it is both (i) not material, and (ii) would be competitively harmful if publicly disclosed.**

This Manufacturing Services Agreement (“Agreement”) is entered into on February 26, 2019 (the “Effective Date”) by and between Kornit Digital Technologies Ltd. having its place of business at 12 Ha’Amal St., Afek Park, Rosh-Ha’Ayin 4809246, Israel (“Kornit”), and Sanmina-SCI Israel Medical Systems Ltd., a company incorporated under the laws of the state of Israel whose address is 5 Haroshet St. Ma’alot Tarshiha Israel (“Sanmina”). Kornit and Sanmina are referred to collectively as the “Parties”, individually as a “Party”.

WHEREAS, Sanmina is in the business of providing manufacturing services that include the custom manufacture of digital printers;

WHEREAS, Kornit is in the business of developing and/or manufacturing the Products (as defined below); and

WHEREAS, Kornit desires to engage Sanmina to perform certain manufacturing services as further set forth in this Agreement and in applicable agreed upon specifications to be attached or incorporated by reference.

NOW THEREFORE, Kornit and Sanmina hereby agree as follows:

## 1. Definitions

- 1.1 “Approved Vendor List” will mean the list of vendors approved by Kornit to supply the Components or services listed on the Bill of Materials.
- 1.2 “Bill of Materials” (BOM) will mean a list of Components required for the manufacture, assembly, testing and packaging of each Product based on the most current Specifications. The Parties will mutually agree on each BOM.
- 1.3 “Components” will mean the parts, materials, assemblies and supplies that are used for the manufacture, assembly, testing and packaging of each Product, as stipulated in the respective Bill of Materials; each of Kornit and Sanmina may supply Components as defined herein, if so indicated in the Bill of Materials.
- 1.4 “Consigned Tooling and Equipment” shall have the meaning set forth in Section B.2 below.
- 1.5 “Confidential Information” shall have the meaning set forth in Section 27.1 below.
- 1.6 “Cost” will mean the agreed cost of Components represented on the BOM current at the time such Components are acquired.
- 1.7 “Damages” shall have the meaning set forth in Section 20.1 below.
- 1.8 “Days” will mean calendar days, which unless otherwise specified, include Saturdays and Sundays. “Business Days” do not include Friday, Saturdays or Israeli recognized holidays.
- 1.9 “Delivery Date” will mean such date which shall be no longer than the Lead Time of the Products or as mutually agreed upon in writing between the Parties.
- 1.10 “Economic Order Inventory” will mean Components purchased in quantities above the required amount for Purchase Orders, as applicable, in order to achieve price targets for such Components.
- 1.11 “Engineering Change Order” (ECO) will mean the document that details a change in the Specifications and/or the Product.
- 1.12 “Environmental Regulations” will mean any applicable hazardous substance content laws and regulations.
- 1.13 “Excess Inventory” will mean either of any Product, partially completed Product, Inventory or Special Inventory, or some or both, owned by Sanmina that have no demand for Products under the then-current Purchase Order(s) or forecast

- 1.14 “Intellectual Property Rights” will mean any and all intellectual property rights worldwide arising under statutory law, common law or by contract and whether or not perfected, including without limitation: (i) trade dress, trademark, and service mark rights; (ii) patents, patent applications and patent rights; (iii) rights associated with works or authorship including copyrights, copyright applications, copyright registrations, mask works rights, mask work applications, mask work registrations; (iv) rights relating to trade secrets and confidential information; (v) any rights analogous to those set forth in this section and any other proprietary rights relating to intellectual property; and (vi) divisional, continuations, renewals, reissues and extension of the foregoing (as and to the extent applicable) now existing, hereafter filed, used or acquired, and whether registered or unregistered.
- 1.15 “Inventory” will mean any Components that are procured by or on-order with Sanmina in accordance with the terms of this Agreement for use in the manufacture of Products, pursuant to a Purchase Order.
- 1.16 “Lead Time” shall have the meaning set forth in Section 10.1 below.
- 1.17 “Minimum Order Quantity” will mean Components purchased in excess of requirements for Purchase Orders, as applicable, because of minimum lot sizes required by the vendor.
- 1.18 “Obsolete Inventory” will mean either of any Product, partially completed Product, Inventory or Special Inventory, or some or all that is any of the following: (a) removed from the BOM for a Product by an engineering change; or (b) no longer on an active BOM for any of Kornit’s Products.
- 1.19 “Overseas Services” shall have the meaning set forth in Section 3.3 below.
- 1.20 “Overseas Site” shall mean Sanmina affiliate’s site any site of a Sanmina affiliate worldwide, as mutually agreed between the Parties.
- 1.21 “Product(s)” will mean digital printing systems known as “Avalanche 1000R” and “Storm Hexa” or any other product as shall be mutually agreed by the Parties in writing.
- 1.22 “Product Specification” or “Specifications” will mean the written specifications provided by Kornit to Sanmina and accepted by Sanmina for the manufacture, assemble and testing of a Product including, without limitation, the current revision number, Approved Vendor List (AVL), Bill of Materials (BOM), manufacturing procedures, schematics, testing procedures, drawings and documentation, attached hereto as Exhibit D.
- 1.23 “Purchase Order” will mean purchase orders for the Products issued by Kornit and accepted by Sanmina in accordance with the terms of this Agreement. The terms of this Agreement will control over printed terms on any Purchase Order, quotation, acknowledgement, confirmation or invoice.
- 1.24 “Special Inventory” will mean any mutually-agreed Minimum Order Quantity, Economic Order Inventory, safety stock and other Inventory acquired by Sanmina in excess of requirements for Purchase Orders to support flexibility or demand requirements.

## 2. Personnel

- 2.1 Each Party will appoint a program manager as the program liaison with the other Party in connection with the initial coordination and implementation of the manufacture of the Products, which will also deal with ongoing support issues thereafter. The Parties agree to conduct periodic technical reviews and business reviews. The technical reviews will include, but will not be limited to, product performance, testing, project schedule and product costs. The business reviews will include, but will not be limited to, quality, delivery, flexibility, service and price. The program managers will coordinate these reviews.
- 2.2 Sanmina will provide a list of program team members representing the functions listed below. The list will include name, title, phone number and email address.
- 2.3 Each of Sanmina’s personnel that will be engaged in the performance of services hereunder will have the proper skills, training and professional background to perform such services. In addition, such personnel shall be bound by obligations of confidentiality consistent with Sanmina’s obligations under this Agreement.

### 3. Manufacture of Products

- 3.1 During the term of this Agreement, Sanmina will manufacture, assemble and test the Products in accordance with the Specifications and pursuant to the respective Purchase Orders that have been accepted by Sanmina. Sanmina will maintain manufacturing and test records in accordance with Sanmina's records retention policy. Unless specifically agreed otherwise in writing between the Parties, in case of any conflict between the Specifications and this Agreement, the Specifications shall prevail.
- 3.2 Kornit and Sanmina agree to work on a "full turnkey basis". This means that Sanmina will purchase all Components pursuant to Purchase Orders and provide standard production equipment that is not Product-specific (e.g., production desks, lifting stages, storage equipment etc.), as necessary to fulfill such Purchase Orders. However, Kornit may supply certain tooling and equipment that are unique to Kornit Products and such tooling and equipment will be detailed in Exhibit B, as may be amended by the parties from time to time (the "Consigned Tooling and Equipment"). Sanmina shall not be required to pay for such Consigned Tooling and Equipment.
- 3.3 Sanmina will buy with firm Purchase Orders the Outside Plant Products ("OSP") parts.
- 3.4 Kornit may request Sanmina to maintain a safety stock of Components and/or Products in order to increase flexibility in the manufacturing and ordering process. Kornit and Sanmina will agree upon a list of items for such safety stock and terms of handling or charges, that will be reviewed on a quarterly basis.
- 3.5 Kornit may request at any time that certain type and quantity of Products (whether covered under an open Purchase Order or under a new purchase order issued by Kornit for that purpose) will be assembled and packed outside Israel, at an Overseas Site (the "Overseas Services") and Sanmina shall accept such request subject to the provisions of Section 9.2 below. In order to provide the Overseas Services Sanmina will ship all required Components and will send sufficient number of personnel from Sanmina site in Ma'alot to the Overseas Site. Kornit shall be liable, subject to its prior written consent, for all costs associated with the performance of the Overseas Services, including without limitation, [\*\*\*], all in accordance with Sanmina's then current quotation for the Overseas Services.

### 4. Procurement of Components; Inventory Management

- 4.1 Authorization to Procure Components. Each Purchase Order or Forecast, solely with respect to Long Lead-time Components (as detailed in Section 9) shall constitute an authorization for Sanmina to procure all Components required for the manufacture of the Products covered by such Purchase Orders, based on the applicable lead times of such Components and in accordance with Sanmina's standard material ordering policies, attached hereto as Exhibit G ("Policies"). Kornit hereby agrees to be financially responsible for all Components ordered in accordance with the Policies pursuant to any Purchased Order and any binding portion of the Forecasts provided by Kornit. In addition, subject to Kornit's prior written approval, Sanmina will be entitled to procure Special Inventory required to support Kornit's Purchase Orders. Notwithstanding the provisions of the Policies the following shall apply: (i) Sanmina shall make purchase commitments only based on Purchase Orders and not based on Forecasts, excluding as set forth in Section 9; (ii) the payment terms set forth in Section E(viii)b of the Policies shall not apply but rather the payment terms set forth in Section 7; and (iii) Section F of the Policies shall be amended such that the end of the sentence will be deleted ("provided, however, that Sanmina shall not be obligated to attempt to return to Vendor Components which are, in the aggregate, worth less than [\*\*\*]). To the extent Sanmina actually receives from a vendor of Components or services the benefit arising from said vendor's warranty obligations related to its Components or services and to the extent such benefit is transferrable, Sanmina shall transfer such benefit to Kornit (without any actual liability for such vendor's warranty obligations). In the event of a conflict between the provisions of Exhibit G and the provisions of this Agreement, the provisions of this Agreement will prevail.

- 4.2 Kornit Approved Vendors; AVL. Sanmina will procure Components only from Kornit Approved Vendor List and in case Sanmina is listed on the AVL as the approved vendor for a certain Component, then such Component will be supplied by Sanmina. Kornit will provide Sanmina with all AVL for each BOM item of a Product to be manufactured. Once Kornit advises Sanmina of its selected vendors, Sanmina may not change to other vendors without Kornit's advance written approval. In no event shall Sanmina change to a vendor that does not appear on the relevant AVL without Kornit's express prior written consent (in Kornit's sole discretion). Any changes to the AVL by Kornit should be coordinated sufficient time in advance with Sanmina so as to minimize any adverse impact on Sanmina's ability to provide the services hereunder in an efficient and competitive manner. Unless otherwise agreed, such change may be effective only with respect to Purchase Orders issued and accepted after such change is introduced and shall not apply to Components ordered prior thereto in accordance with the terms hereof,
- 4.3 Inventory Management. Without derogating from the other provisions of this Agreement, Sanmina shall manage its Inventory on a first-in-first-out (FIFO) basis. Any Minimum Order Quantity will be pre-approved once in a quarter based on a specific list in writing by Kornit so that the parties can reduce dead stock.
- 4.4 Reports. Sanmina shall provide to Kornit, within seven (7) Business Days of Kornit's request, copies of electronic or written reports on current Inventory, in a standard form available at Sanmina's systems. In addition, after a Product is packed, Sanmina shall insert data to Kornit ERP system (the "Priority" system), including serial numbers for parts that Kornit will define, pictures according to the assembly procedure's requirements and book machine.

## 5. Quality

- 5.1 Kornit's standard Quality Agreement is attached hereto as Exhibit C1 (the "Quality Agreement"). The Quality Agreement may only be amended by mutual consent of the Parties.
- 5.2 Sanmina agrees that the manufacture, test and quality control of the Products under the terms of this Agreement will be in accordance with the standards specified by the Quality Agreement.

## 6. Safety

- 6.1 Kornit's standard Safety Agreement is attached hereto as Exhibit C2 (the "Safety Agreement"). The Safety Agreement may only be amended by mutual consent of the Parties.
- 6.2 Sanmina agrees that the manufacture, test and quality control of the Products under the terms of this Agreement will be in accordance with the standards specified by the Safety Agreement.

## 7. Price; Cost Reduction and Payment Terms

- 7.1 The initial Product Prices will be agreed upon between the Parties (the "Product Price List"). Prices are in U.S. Dollars, and payment of broker's fees, duties, tariffs or other similar charges, (2) taxes (other than those based on the net income of Sanmina); and (3) setup, tooling or non-recurring expenses.
- 7.2 Prices of systems will be EXW- Sanmina Ma'alot.
- 7.3 Pricing is based on the following principles:  
 Material Overhead – [\*\*\*] (Include Inbound Cost)  
 Labor assembly - [\*\*\*] assembly per hour, Labor Test - [\*\*\*] per hour Sales  
 General and Administration Expenses – [\*\*\*]  
 Profit – [\*\*\*]  
 Total Markup – [\*\*\*]

Cost Model for spare parts will be the same as above till beginning of 2019.

Beginning of 2019 the parties will agree on specific Cost model for the spare parts based on cumulative experience.



- 7.4 Sanmina agrees to use reasonable commercial efforts to reduce the cost of manufacturing Products by methods such as, but not limited to: on-going negotiations with suppliers during normal course of business, market price reduce, elimination of Components, obtaining alternate sources of Components and improved assembly or test methods. Sanmina will present to Kornit any proposal for cost reduction projects and will implement such projects only with the receipt of written approval of Kornit. To allow Sanmina to share in the benefit of cost reduction opportunities introduced by Sanmina, during the first year following the introduction of such cost reduction, [\*\*\*] percent ([\*\*\*]%) of the amount of Sanmina initiated cost reduction will be applied to reduce the price of the Products. Thereafter, [\*\*\*] of such cost reduction will be applied to reduce the price of the Products purchased by Kornit (i.e. Kornit will pay the actually reduced cost only from the second year following the cost reduction).
- 7.5 Kornit shall pay all amounts due in U.S. Dollars within the end of the month plus 60 days from of the date of the invoice, which shall not be issued prior to shipment of the Product. Likewise, Sanmina shall pay all amounts due by it for OSP (or otherwise) in U.S Dollars within the end of the month plus 60 days from of the date of the invoice.
- 7.6 To the extent Sanmina agrees to pay any import duties, including without limitation any customs, excise, purchase tax etc., and VAT applicable on the import of Components, Kornit will promptly reimburse Sanmina for such costs upon receipt of Sanmina's invoice and supporting documentation for such payments. Sanmina will provide to Kornit the respective documentation evidencing every 6 months and will charge for such costs and will make commercially reasonable efforts to assist Kornit in eliminating, reducing and recovering such costs under relevant laws and regulations. If legally obligated, Sanmina will charge such costs as separately stated amounts on invoices in connection with the sale of Products to Kornit. For the avoidance of doubt, Sanmina is not responsible or liable in any manner for the classification or reclassification of Components or Products for import or export purposes and any risk associated therewith shall reside exclusively with Kornit.
- 7.7 Customs - Sanmina undertakes to cooperate with Kornit in connection with any inspection made by the import tax custom authorities. Sanmina shall provide Kornit with all materials requested by Kornit in connection with import of Components and parts. In addition, Sanmina shall provide Kornit with separate invoices for the custom costs which it paid for the Components imported specifically for Kornit. The invoices shall include import declaration, quantity, HS code and import declaration date.
- Kornit will be able to receive refunds for the duties and taxes for such imported Components and parts.
- 7.8 If Kornit fails to pay amounts due, Sanmina shall provide Kornit with a written notice to that effect, and allow it to cure such breach within a period of [\*\*\*] ([\*\*\*]) Business Days from the date of the notice (the "Cure Period"). If Kornit does not cure this breach within the Cure Period, Kornit shall pay [\*\*\*] percent ([\*\*\*]%) monthly interest on all late payments as of the first day of delay and until all outstanding amount is fully paid.

8. Consigned Tooling and Equipment

Upon notice to Sanmina, Kornit shall supply the Consigned Tooling and Equipment to Sanmina. Consigned Tooling and Equipment will be delivered to Sanmina in sufficient time and in sufficient quantities, including normal attrition levels, to allow Sanmina to meet the respective Delivery Dates for the Products under all outstanding Purchase Orders. All Consigned Tooling and Equipment will be in good condition and working order. Kornit assumes complete liability for the quality of all Consigned Tooling and Equipment and Sanmina will not be responsible for any defects therein. Sanmina may, upon receipt of the Consigned Tooling and Equipment, perform inspections of the Consigned Tooling and Equipment, in accordance with its standard procedures and may notify Kornit in writing, not later than [\*\*\*] ([\*\*\*)] Business Days from the date of receipt of the Consigned Tooling and Equipment, of any defects found or of any discrepancy in quantities. Kornit shall be responsible for maintenance and repairs of the Consigned Tooling and Equipment. Sanmina shall be responsible for any physical damage caused to Consigned Tooling and Equipment by Sanmina's malicious and/or grossly negligent behavior.

9. Forecasts

Kornit will provide Sanmina a rolling forecast covering the period of current +6 (six) calendar months (the "Forecast"). The Forecast will specify the number of units of the Products Kornit anticipates purchasing during such six (6) month period. The Forecast will be binding only with respect to purchase of Long Lead-time Components. The Forecast will not be binding for any other purpose and will not be regarded by either Party as a commitment to order, purchase, deliver or meet any volume commitment specified therein. Sanmina shall make commercially reasonable efforts to purchase the Long Lead-time Components as latest as possible, according to their respective lead time Kornit may adjust the Forecast at its reasonable discretion at any time and according to the flexibility model.

- A. Initial Forecast. Customer shall provide Sanmina with an initial thirty (30) day firm Purchase Order ("Order") and Forecast for Product requirements (in monthly buckets) for an additional six (6) months. The Order - and all subsequent Orders - shall be binding and may be rescheduled only in accordance with Section D, below. Sanmina shall make purchase commitments (including purchase commitments for Long Lead-time Components) to its Component suppliers ("Vendors") based upon the Order and Forecast (only with respect to the Long Lead-time Components), and Customer shall be responsible for all such Components purchased in support of Customer's then-current Forecast. For all other purposes, however, the Forecast shall be non-binding.
- B. Subsequent Forecasts. On the first business day of each calendar month after the initial Order and Forecast, the first Forecast month shall automatically become part of the Order, a new Forecast month shall be added, and a new firm Order issued, so that a rolling Order of thirty (30) days is always maintained.

C. Material Requirement Planning Process.

1. Sanmina shall take the Order and Forecast and generate a Master Production Schedule (“MPS”) for a six-month period in accordance with the process described in this Section. The MPS shall define the master plan on which Sanmina shall base its procurement, internal capacity projections and commitments. Sanmina shall use Customer’s Order to generate the first two (2) months of the MPS and shall use Customer’s Forecast to generate the subsequent six (6) months of the MPS.
2. Sanmina shall process the MPS through industry-standard software that will break down Customer’s Product requirements into Component requirements. When no Product testing (in-circuit or functional testing) is required by Customer, Sanmina will use commercially reasonable efforts to schedule delivery of all Components to Sanmina eleven working days before the Products are scheduled to ship to Customer; in the event Product testing is required, Sanmina will use commercially reasonable efforts to schedule delivery of all Components to Sanmina [\*\*\*] working days before the Products are scheduled to ship to Customer.
3. Sanmina will release purchase orders to Vendors prior to the anticipated date that the Components are needed by Sanmina. The date on which these orders are released will depend on the lead time determined between the Vendor and Sanmina and Sanmina’s manufacturing or materials planning systems, provided that any order will be made as late as possible.
4. A list of all Components with lead times greater than ninety days (“Long Lead-time Components”) shall be provided. Sanmina shall update the list of Long Lead-time Components every quarter and present an updated list of Long Lead-time Components to Kornit at the time Sanmina presents Kornit with the E&O List described in Section E, below. Each revised Long Lead-time Item list shall be deemed an amendment to Exhibit B. In the event Sanmina fails to present an updated list of Long Lead-time Components, the parties shall continue to rely on the preceding list (as updated in writing by the parties). It is agreed that it is Sanmina’s responsibility to update Kornit with any extended lead time or changes in the standard lead time of BOM components.
5. Kornit acknowledges that Sanmina will order Components in quantities sufficient to support up to six months of Kornit’s Forecast. For the avoidance of doubt, Kornit will be required to issue a Purchase Order only with respect to the Long Lead-time Components which were ordered by Sanmina. In determining the quantity of Components to order, Sanmina divides the Components into three classes, “Class A,” “Class B” and “Class C.” Class A Components are comprised of the approximately [\*\*\*] percent ([\*\*\*]%) of Components constituting approximately [\*\*\*] percent ([\*\*\*]%) of the Product’s total Component cost. Class C Components are comprised of the approximately [\*\*\*] percent ([\*\*\*]%) of Components constituting approximately [\*\*\*] percent ([\*\*\*]%) of the Product Cost. Class B Components are comprised of the remaining [\*\*\*] percent ([\*\*\*]%) of Components constituting approximately [\*\*\*] percent ([\*\*\*]%) of the Products cost. Sanmina will place orders with its Vendors for approximately [\*\*\*] worth of Class A Components, [\*\*\*] worth of Class B Components and [\*\*\*] worth of Class C Components. A summary of Sanmina’s purchase commitments is set forth in the table below.

<b>Part Class</b>	<b>Expected Percentage of Total Parts</b>	<b>Expected Percentage of Total Value (of Gross Requirements)</b>	<b>Periods Worth of Supply to be Bought with Each Order</b>
A	[***]%	[***]%	[***]
B	[***]%	[***]%	[***]
C	[***]%	[***]%	[***]

## 10. Purchase Orders

- 10.1 During the term of this Agreement, Kornit may provide Sanmina with written Purchase Orders for the Products. As a matter of convenience and subject to the provisions of Section 9.3 below, Kornit may use its standard purchase order form for any orders provided for hereunder. Each Purchase Order shall be in the form of a written or electronic communication and shall contain the following information: (i) the part number of the Product; (ii) the quantity of the Product; (iii) the delivery date or shipping schedule; (iv) the location to which the Product is to be shipped; and (v) transportation instructions. Each Purchase Order shall contain a number for billing purposes, and may include other instructions and terms (provided that such terms do not conflict with this Agreement) as may be appropriate under the circumstances.
- 10.2 Sanmina shall accept purchase orders from Kornit that comply with the provisions of this Agreement, including without limitation, that the fees reflected in each such purchase order are consistent with the Parties' then-current agreement with respect to the fees and that the delivery date requested thereunder is consistent with the Delivery Date. Sanmina shall notify Kornit of the acceptance or rejection of any purchase order (only to the extent that it does not comply with the foregoing conditions) within [\*\*\*] Business Days of receipt of such purchase order. To the extent that Sanmina does not provide Kornit any notice of rejection within the above-mentioned time frame, the purchase order shall be deemed rejected.
- 10.3 The terms and conditions of this Agreement will control over any terms contained in any quotation, purchase order issued by Kornit, written acceptance or acknowledgment by Sanmina, invoice or any other form instalment exchanged by the Parties that is not clearly an amendment to this Agreement signed by both Parties and no additional, contradictory, modified or deleted terms established by such instruments are intended to have any effect on the terms of this Agreement, even if such instrument is accepted by the other Party.

## 11. Lead Time

- 11.1 For new Products (which are ordered by Kornit for the first time), the lead time for the first Purchase Order will be as set forth in Sanmina's quotation and agreed to by Kornit. Following the initial Purchase Order, the lead time will be [\*\*\*] ([\*\*\*]) days, as long as the Purchase Order aggregate quantity and the delivery date is in accordance with the Forecast that Kornit provided (according to Section 9 above). Any change to this lead time is subject to Kornit's prior written approval.
- 11.2 If circumstances arise that prevent Sanmina from timely delivery of the Products on the Delivery Date, Sanmina will notify Kornit, immediately after it becomes aware of such circumstances, of the nature of the problem, the methods taken to overcome the problem and the estimated time of delay.
- 11.3 Sanmina acknowledges that time is of the essence. In the event that Sanmina will be late with a delivery for more than [\*\*\*] times during [\*\*\*] ([\*\*\*]) weeks in more than compare to the delivery dates committed by Sanmina in its order confirmation, such breach shall amount to a material breach of this Agreement.

11.4 The delay shall not include events which are (a) directly attributable to Kornit, (b) a force majeure event, or (c) due to Kornit's cancellation or reschedule of Purchase Order pursuant to Section 12, (d) a rescheduled delivery date that was pre-approved in writing by Kornit for at least [\*\*\*] working days prior to committed delivery date.

**12. Reschedule and Cancellation of Purchase Orders**

**12.1 Shipment Schedule Changes**

For any Purchase Order Kornit may reschedule the quantity of Products and their shipment date as provided in the table below, without Sanmina's prior written approval and at no

cost:

Days Before Purchase Order Delivery Date	Percentage Reschedule Allowance
[***]	[***]%
[***]	[***]%
[***]	[***]%
[***]	[***]%

**12.2 Cancellation**

(a) Kornit may cancel all or any portion of Product quantity of a Purchase Order, without Sanmina's prior written approval by providing a written notice to Sanmina at least [\*\*\*] prior to the Delivery Date, at no cost, except as set forth in sub-section (b) below. Any other cancellation of a Purchase Order shall be subject to Sanmina's prior written approval.

(b) Upon cancellation of a Purchase Order (or any portion thereof) Kornit shall purchase from Sanmina any affected Products, Inventory and Special Inventory and pay Sanmina as follows: (i) the price listed in the then current Product Price List for all affected Products (or a pro-rata proportion thereof for any applicable partially completed Product); (ii) [\*\*\*]% of the Cost + [\*\*\*]% material overhead of all affected Inventory and Special Inventory in Sanmina's possession and not returnable to the vendor or reasonably usable for other customers, whether in raw form or work in process, (iii) [\*\*\*]% of the Cost + [\*\*\*]% material overhead of all affected Inventory and Special Inventory on order and not cancelable, and (iv) any vendor cancellation charges incurred with respect to the affected Inventory and Special Inventory accepted for cancellation or return by the vendor as long as those were ordered within their standard lead time.

**12.3 Quantity Increase**

(a) For any Purchase Order Kornit may request an increase in the quantity of Products ordered (the "Increase Request"). All Product quantity increases require Sanmina's approval and are subject to Components availability from suppliers.

(b) Notwithstanding the foregoing, the following shall be considered as authorized Increase Requests (subject to Component availability): (i) an increase of up to one hundred percent (100%) of the Purchase Order quantities if the Increase Request has been issued by Kornit at least three (3) months prior to the Delivery Date, and (ii) an increase of up to two hundred percent (200%) of the Purchase Order quantities if the Increase Request has been issued by Kornit at least six (6) months prior to the Delivery Date.

**13. Delivery**

13.1 All deliveries of Products hereunder will be made EXW (Ex works, Incoterms 2010) Sanmina's applicable manufacturing site (Ma'alot) for Products manufactured in Israel and the respective Overseas Site for Products manufactured outside Israel). AH deliveries of spare parts purchased from time to time by Kornit, will be made EX- Works Risk of loss and title shall pass to Kornit upon delivery by Sanmina of the Products to the stated delivery point in accordance with said Incoterm.

- 13.2 Upon Kornit request, Sanmina will use reasonable commercial efforts to assist Kornit in arranging any desired shipping and insurance coverage (in amounts that Kornit will determine). All costs of shipping, insurance, freight, customs, duties, taxes, insurance premiums and other expenses relating to such transportation and delivery, will be at Kornit's expense.
- 13.3 The Products shall not be packed and delivered before Sanmina conducted the delivery procedure set forth in the Specifications and received Kornit's approval. The Products shall be packed in accordance with the instructions set forth in the Specifications.

#### 14. Products Acceptance

Each Product must pass the factory acceptance test described as described in the Specifications ("Factory Acceptance Test" or "FAT") before such Product may be shipped from Sanmina's site. Sanmina shall be responsible for conducting the FAT and shall provide Kornit with written certification that each Product passed the applicable FAT and complies in all material respects with the applicable Specifications. Kornit may participate, at its expense, as it deems necessary, in any FAT, in which case FAT shall only be deemed to have passed if approved in writing by Kornit. Sanmina shall provide Kornit with reasonable facilities and assistance at no additional charge to participate in the FAT. The Products delivered by Sanmina may be inspected and tested by Kornit, using the same FAT test approved for use by Sanmina, within five (5) Business Days of receipt at the "ship to" location on the applicable Purchase Order. Notwithstanding any prior inspection conducted at Sanmina's premises or by Sanmina (including the FAT), or payment made by Kornit, Kornit may reject any portion of any shipment of Products during said period if, according to the FAT as conducted by Kornit, the Products do not comply with the Specifications. Products not rejected during said period will be deemed accepted. If Kornit does not reject the tendered Products with such time period then the Products shall be "deemed" accepted. Any Products so returned to Sanmina will be repaired or replaced, at Sanmina<sup>1</sup> option and expense in accordance with the provisions of Section 18 below.

#### 15. Epidemic Failure

- 15.1 Sanmina warrants the Products to be delivered to Kornit pursuant to this Agreement against Epidemic Failure for a period of 1 year after its shipment. "Epidemic Failure" means the occurrence of the same failure, defect, or non-conformity in Sanmina workmanship the Products supplied by Sanmina with an order in [\*\*\*] or more of the supply within any three-month period. If an Epidemic Failure occurs, all costs, including but not limited to, repair or replacement of the affected Products (at Sanmina's option), parts, upgrades, labor, transportation and inventory replacement arising from an Epidemic Failure shall be borne by Sanmina, regardless of whether Kornit initiates a field stocking recall or customer-based recall or retrofit, including supply in distributor inventory and Kornit's installed base. Sanmina, at its expense, will ensure that such supply, parts or upgrades have the highest shipping priority.
- 15.2 The foregoing warranties shall survive delivery and payment, and shall run in favor of Kornit, its customers, successors and assigns. No payment, inspection, verification, acceptance, test, delay, use, resale or failure to inspect, verify, test or discover any defect or other nonconformance shall relieve Sanmina of any of its obligations or impair any rights or remedies of Kornit.

#### 16. Inspection Rights: Reports

- 16.1 Upon request by Kornit, from time to time, and during normal business hours, subject to compliance with Sanmina's confidentiality and security requirements, Sanmina will allow Kornit representatives to inspect the manufacturing and quality control, testing operations, compliance procedures and premises relating to the manufacture, assembly and testing of the Products.

- 16.2 Upon Kornit request Sanmina shall provide Kornit with standard reports and analysis of the yields of each of the quality tests performed to the Products and shall report any defect which was discovered during such tests in the Product or in the production process within a reasonable period from the time Sanmina becomes aware of such defect.
- 16.3 From time to time, Kornit may request reports as to the progress of the Product production in accordance with the then outstanding Purchase Order.

**17. Engineering Change Order (ECO)**

- 17.1 An Engineering Change Order (“ECO”) is required when the form, fit or function of the design of the Product and/or Specifications are affected. Kornit may request that Sanmina incorporate engineering changes into the Product or Specifications by providing a written description of the proposed engineering change sufficient to permit Sanmina to evaluate the feasibility and cost of the proposed change.
- 17.2 Sanmina will provide a written response in the form of an “Engineering Change Analysis” to Kornit if such changes affect the per/unit price and/or delivery of a Product, within ten (10) Business Days. The Engineering Change Analysis cost impact shall be written directly in Kornit ERP system (Priority) in addition to a formal ECO breakdown indicate the implication and the cost changes per line item (Scrap, Rework etc.).
- 17.3 Kornit will respond with a written acceptance or rejection of the Sanmina “Engineering Change Analysis” within three (3) Business Days. Sanmina will not implement the change to the design or Specifications of any Product or materials, equipment, manufacturing and quality assurance procedures, methods and techniques used to produce a Product, without Kornit’s prior written approval.
- 17.4 Sanmina will implement any ECO at the date mutually agreed between the Parties, provided that the Parties have agreed upon the changes to the Specifications and delivery schedule.
- 17.5 The cost of Inventory that becomes unusable because of an ECO and any other agreed implementation costs will be the responsibility of Kornit. Such responsibility shall be supported by documentation provided by Sanmina. The settlement between the Parties regarding such costs shall be made on a quarterly basis.
- 17.6 Kornit will issue a PO for the related costs plus material overhead ([\*\*\*]%) of the ECO such as dead stock, SCRAP, within 25 Business Days of Kornit approval.

**18. Kornit Property**

Any Consigned Tooling and Equipment supplied by Kornit or procured by Sanmina at Kornit expense (the “Kornit Property”) will remain the property of Kornit and will (i) be clearly marked or tagged as the Property of Kornit, (ii) be subject to inspection by Kornit at any time upon reasonable prior coordination, (iii) be used only for the performance of Sanmina’s services hereunder, (iv) will not be subject to any liens and encumbrances by Sanmina, and (vi) not be modified in any manner by Sanmina without the prior written approval of Kornit. The Kornit Property shall be maintained by Kornit in accordance with Kornit’s maintenance procedures including but not limited to periodic calibration. Kornit will retain all rights, title and interest in the Kornit Property and Sanmina agrees to treat the Kornit Property with the same degree of care as Sanmina uses with respect to its own valuable tooling and equipment, but no less care than reasonable care. Notwithstanding anything to the contrary under this Agreement or under applicable law, Sanmina shall not be responsible for any maintenance, repairs or replacements of the Kornit Property. Kornit will bear all risk of loss or damage to Kornit Property while it is in Sanmina’ premises and Sanmina shall not be responsible for any damage caused to or by the Kornit Property, other than to physical damage caused to Kornit Property by Sanmina malicious and/or negligent behavior. Upon Kornit’s request, Sanmina will deliver all Kornit Property to Kornit, at Kornit expense; Kornit will determine the manner and procedure for returning the Kornit Property, and will pay the corresponding freight costs. Sanmina’s production and warranty obligations which require the utilization of the returned Kornit Property will cease upon Sanmina’s fulfillment of Kornit’s request to return the Kornit Property.

## 19. Warranties

- 19.1 Sanmina represents and warrants to Kornit that all work and service provided by Sanmina pursuant to this Agreement will be provided in a timely, professional and workmanlike manner.
- 19.2 Sanmina also represents and warrants to Kornit that all Products (i) will be manufactured in accordance with the then current Specifications and, in all material respects, with laws and regulations applicable to Sanmina's manufacture of the Products; and (ii) will be free from defects in workmanship and conform with the Specifications for a period of [\*\*\*] from the date of shipment (the "Warranty" and the "Warranty Period", respectively).
- 19.3 Any Products that do not meet the Warranty will be repaired or replaced at Sanmina's sole option and expense or, in the event that such Product cannot be repaired or replaced using commercially reasonable efforts during the time mentioned below, Sanmina will credit Kornit the purchase price paid by Kornit for such Product. Sanmina will repair or replace any defected Product covered by the Warranty as soon as reasonably commercially possible but not later than ten (10) Business Days of receipt by Sanmina of the returned Product; provided that the Products are returned within the Warranty Period. The foregoing set forth Sanmina's sole obligation and Kornit's sole remedy under the Warranty. Any repaired or replaced Product shall benefit from Sanmina's limited Warranty, for the remainder of the term of the original Warranty Period, provided however that the warranty period shall not be less than three (3) months from the date of replacement or repair.
- 19.4 Notwithstanding anything else in this Agreement, this express limited Warranty will not apply to, and Sanmina makes no representations or warranties whatsoever with respect to any of: (i) Products that have been abused, damaged, altered or misused or mishandled (including improper storage or installation or improper handling in accordance with static sensitive electronic device handling requirements) by any person or entity after title passes to Kornit; (ii) improperly installation or maintenance, or (iii) repairs or alteration by anyone other than Sanmina.
- 19.5 Kornit shall return Products covered by this Warranty freight prepaid after completing a failure report and obtaining a return material authorization number from Sanmina to be displayed on the shipping container.
- 19.6 Sanmina further represents and warrants that upon delivery Kornit shall receive free, good and clear title to all Products.
- 19.7 Sanmina will not, without the express prior written approval of Kornit, make any change to the Specifications, manufacture a Product that is not in strict compliance with its Specifications, or include in any Product any materials that have not been expressly authorized by Kornit.
- 19.8 AH delivered Products will be adequately and correctly contained, packaged, marked and labeled in accordance with Kornit's instructions as set forth in the Specifications.



- 19.9 In order to enable use of the Products in total safety, Sanmina shall: (i) comply with all applicable law, including, but not limited to, Environmental Regulations, obtaining the applicable business permit, fire department permit and license from the Ministry of Environmental Protection, (ii) ensure that the Sanmina manufacturing processes used in the manufacture of the Products are compliant with the European Directive 2002/95/EC of 27 January 2003, also known as the RoHS Directive; (iii) with respect to compliance with the REACH Regulation (EC 1907/2006), Sanmina's obligations shall be limited to those Components and consumables directly involved in Sanmina's manufacturing process (e.g. cleaning solvent, solder paste used in the Sanmina manufacturing process, etc.), and those parts added to the AVL by Sanmina (e.g. PCB, enclosure, packaging material, etc. sourced by Sanmina as part of any mutually agreed localization programs). Should additional services be required by Kornit regarding RoHS and other environmental requirements then Sanmina shall provide a proposal to provide such additional services to Kornit at Sanmina's then current rates; and (iv) take appropriate due diligence and continuous monitoring of Sanmina's supply chain, in accordance with its Conflict Mineral Policy, as are reasonably necessary to avoid procurement or use of raw metals sourced from regions of the world known as "conflict regions", including, without limitation, conflict materials that directly or indirectly finance or benefit armed groups in the Democratic Republic of the Congo or an adjoining country, as such terms are defined in Section 1502 of the US Dodd-Frank Wall Street Reform and Consumer Protection Act. Sanmina further agrees to fully support Kornit's efforts to keep its supply chain free from such conflict metals and make its due diligence measures available to Kornit for review upon request.
- 19.10 Subject to Sanmina's record retention policy, upon Kornit's written request, Sanmina shall provide Kornit with supporting documents which may be with respect to the manufacture of the Products during the term of the Agreement and the costs of retrieving, copying and forwarding such requested records to Kornit shall be at Kornit's expense. Sanmina shall retain a copy of all such documents for a period of [\*\*\*] unless otherwise agreed in writing.
- 19.11 SANMINA MAKES NO OTHER WARRANTIES, EXPRESSED OR IMPLIED, WITH RESPECT TO THE PRODUCTS OR ANY SERVICES PROVIDED UNDER THIS AGREEMENT, AND DISCLAIMS ALL OTHER WARRANTIES INCLUDING THE WARRANTIES OF MERCHANTABILITY, TITLE OR FITNESS FOR A PARTICULAR PURPOSE OR NON-INFRINGEMENT.

## 20. Intellectual Property Ownership and Licenses

- 20.1 As between the Parties, Kornit is and will remain the sole and exclusive owner of all title to and interest in the Kornit's Intellectual Property Rights, Products, Kornit's Confidential Information, Kornit Property, Specifications, software and all inventions, discoveries, designs, modifications, improvements, know how, derivative works, that are based on Kornit Property, Confidential Information, Specifications and software, and that are made, developed, conceived or reduced to practice by either Kornit or Sanmina, solely, jointly or on their behalf during the term of this Agreement (collectively referred to as "Inventions"). Kornit is and will remain the sole and exclusive owner of all title to and interest in the equipment and software provided by or on behalf of Kornit. Sanmina agrees not to remove or deface any portion of any legend provided on any software or documentation delivered to Sanmina under this Agreement. Sanmina hereby assigns any right it may have in the Invention to Kornit. Sanmina further agrees to do all things reasonably necessary to evidence and perfect Kornit's interest therein, as reasonably requested by Kornit and at Kornit's expense. In addition to the above, Sanmina will provide updated copies of all engineering drawings, specifications, design files, and any other design documents to Kornit on a quarterly basis. Sanmina represents and warrants that it shall not knowingly, directly or indirectly, through its affiliated companies, distributors, resellers or agents of any type or nature, use, implement, or disclose any of Kornit's Inventions and Intellectual Property Rights to any third party unless Sanmina will obtain the proper license from Kornit.
- 20.2 Sanmina's Background Property. Sanmina's "Background Property" shall mean and include, without limitation, Sanmina's know-how, design tools, methodologies, software, algorithms, or other means that may be used to (i) design, manufacture, assemble or test products, or (ii) design production means or the processes by which products are manufactured, assembled, or tested or any improvements or modifications thereto. Sanmina owns or has the right to use all of the Intellectual Property Rights in its Background Property. Kornit acknowledges and agrees that this Agreement shall not affect the ownership of, nor convey any licenses or rights under any of the Intellectual Property Rights in Sanmina's Background Property, either expressly, impliedly or otherwise to Kornit or any other third party.

- 20.3 Third Party Technology; Essential IP. Kornit shall be responsible for obtaining any necessary license or other rights and for paying any royalties or license fees in connection with any third-party technology and any Intellectual Property Rights incorporated in the Product, and for providing adequate assurances to Sanmina, upon Sanmina' request that Kornit has secured such rights or paid such royalties or fees.
- 20.4 Independent Work. This Agreement shall not affect the ownership of, nor convey any licenses to, any innovation, improvement, idea, method, technique or work of authorship, or any Intellectual Property Right therein, which is created during or subsequent to the term of this Agreement by a party outside the services provided under this Agreement without reference to, or other use of, the Confidential Information of the other party (an "Independent Work").
- 20.5 Subject to the terms and conditions of this Agreement, Kornit grants Sanmina a nontransferable, nonexclusive, royalty-free, revocable license for the term of this Agreement, to use Kornit's Intellectual Property Rights and Specifications solely for the purpose of manufacturing the Products and otherwise perform its obligations as expressly authorized hereunder. Subject to the terms and conditions of this Agreement, Kornit grants Sanmina a nontransferable, nonexclusive, royalty-free, revocable license to use the software provided by Kornit solely for the purpose of performing its obligations as expressly authorized hereunder. The software and accompanying documentation is licensed, not sold, and Sanmina acknowledges and agrees that any transaction documentation purporting to "sell" or "transfer" the software does not convey ownership of any intellectual property rights in such software or any copies thereof. Other than this license and except as otherwise specifically provided in this Agreement, Sanmina has no rights, expressed or implied, in Kornit's Intellectual Property Rights, Products, Kornit Property and Specifications.
- 20.6 Except as otherwise specifically provided in this Agreement, each Party acknowledges and agrees that no licenses or rights under any of the Intellectual Property Rights of the other Party are given or intended to be given to such other Party.
- 20.7 Sanmina shall not be entitled for the Inventions to any monetary or other compensation over and above that set out expressly in this Agreement.

## 21. Indemnification and Limitation of Liability

- 21.1 Indemnification by Kornit. Kornit is responsible for the design of the Products. Accordingly, Kornit will defend, indemnify and hold harmless Sanmina and its affiliates and all officers, directors, employees, agents, successors and assigns (each a "Sanmina Indemnitee"), from and against all claims, actions, losses, expenses, damages or other liabilities, (including reasonable attorneys' fees and legal costs) (collectively, the "Damages") arising out of or in connection with a third party claim or action, whether the claim is based upon contract, tort or any other legal theory (i) based upon personal injury or death or injury to property to the extent any of the foregoing is caused by a defective design of the Product, by the negligent or willful acts or omissions of Kornit or its officers, employees, subcontractors or agents, and/or (ii) alleging that any Product or portion of a Product violates the Intellectual Property Rights of any third party, except to the extent that infringement occurs as a result of use by Kornit of Sanmina's manufacturing processes.

- 21.2 Indemnification by Sanmina. Sanmina shall, at all times defend, indemnify, hold harmless, and defend Kornit and its affiliates, its officers, directors, employees, agents, successors and assigns (each, a “Kornit Indemnitee”), from and against all Damages arising out of or in connection with a third party claim or action, whether the claim is based upon contract, tort or any other legal theory, (i) based upon personal injury or death or injury to property to the extent any of the foregoing is caused by a defective Product, by the negligent or willful acts or omissions of Sanmina or its officers, employees, subcontractors or agents, and/or (ii) alleging that a process, workmanship and manufacturing methods that Sanmina elects to use to manufacture, assemble or test the Products infringes any Intellectual Property Right of any third party; in each case provided however that Sanmina shall not have any obligation to indemnify any Kornit Indemnitees if such claim arises solely due to Sanmina adherence to the Product Specifications.
- 21.3 Conditions. A Party entitled to indemnification pursuant to this Section (the “Indemnitee”) shall promptly notify the other Party (the “Indemnitor”) in writing of any Claims covered by this indemnity. Promptly after receipt of such notice, the Indemnitor shall assume the defense of such Claim with counsel reasonably satisfactory to the Indemnitee. If the Indemnitor fails, within a reasonable time after receipt of such notice, to assume the defense with counsel reasonably satisfactory to the Indemnitee or, if in the reasonable judgment of the Indemnitee, a direct or indirect conflict of interest exists between the Parties with respect to the Claim, the Indemnitee shall have the right to undertake the defense, compromise and settlement of such Claim for the account and at the expense of the Indemnitor. Notwithstanding the foregoing, if the Indemnitee in its sole judgment so elects, the Indemnitee may also participate in the defense of such action by employing counsel at its expense, without waiving the Indemnitor’s obligation to indemnify and defend. The Indemnitor shall not compromise any Claim (or portions thereof) or consent to the entry of any judgment without an unconditional release of all liability of the Indemnitee as to each claimant or plaintiff. The Indemnitee shall provide the Indemnitor information, assistance and authority, at the Indemnitor’s expense, to enable the Indemnitor to defend the suit.
- 21.4 IN NO EVENT SHALL EITHER PARTY BE LIABLE TO THE OTHER FOR ANY INDIRECT, CONSEQUENTIAL, INCIDENTAL, PUNITIVE OR SPECIAL DAMAGES, OR ANY DAMAGES WHATSOEVER RESULTING FROM LOSS OF USE, DATA OR PROFITS, EVEN IF SUCH OTHER PARTY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES. IN NO EVENT SHALL EITHER PARTY’S LIABILITY FOR ALL CLAIMS ARISING OUT OF OR RELATING TO THIS AGREEMENT EXCEED THE LESSER OF EITHER [\*\*\*] (\$[\*\*\*]) OR [\*\*\*] PERCENT ([\*\*\*]%) OF [\*\*\*] (THE “CAP”). THESE LIMITATIONS SHALL APPLY NOTWITHSTANDING ANY FAILURE OF ESSENTIAL PURPOSE OF ANY LIMITED REMEDY. THE CAP SHALL NOT APPLY TO LIMIT (i) KORNIT’S OBLIGATIONS HEREUNDER FOR TERMINATION/CANCELLATION PAYMENTS, (ii) THERE SHALL BE NO LIMITATIONS UNDER THIS SECTION ON A PARTY’S INDEMNIFICATION OBLIGATIONS FOR BREACH OF INTELLECTUAL PROPERTY CLAIMS, OR FOR BREACH OF CONFIDENTIALITY OBLIGATIONS, (iii) DEATH OR BODY INJURY, AND/OR (V) GROSS NEGLIGENCE OR WILLFUL MISCONDUCT. THE LIMITATIONS SET FORTH IN THIS SECTION SHALL APPLY WHERE THE DAMAGES ARISE OUT OF OR RELATE TO THIS AGREEMENT.

## 22. Non-Solicitation

Each of the Parties hereby agrees that during the term of this Agreement and for a period of twelve (12) months following termination of this Agreement it will not, except with the other Party’s prior written approval, solicit, induce, recruit, hire or encourage any employee or consultant of the counter Party to leave such position, or attempt to do any of the foregoing, either for themselves or for any other person or entity.

## 23. Term

This Agreement will become effective on the Effective Date and will continue for a period of three (3) years (the “Initial Term”) unless terminated at an earlier date in accordance with the provisions herein set forth. This Agreement will automatically be renewed for additional twelve (12) months terms (each a “Renewal Term”), unless terminated by either Party upon one hundred and eighty (180) days written notice to the other Party prior to the end of the Initial Term or any Renewal Term thereafter.

## 24. Termination

- 24.1 Either Party for cause may immediately terminate this Agreement by providing written notice to the other Party, upon the occurrence of any of the following events:
- (a) If the other party ceases to do business, or otherwise terminates its business operations and the foregoing is not cured within sixty (60) days from the date of the notice by the terminating Party, excluding any situation where all or substantially all of such other party's assets, stock or business to which this Agreement relates are acquired by a third party (whether by sale, acquisition, merger, operation of law or otherwise) unless such third party is a competitor of the Party giving notice of termination; or
  - (b) If the other becomes insolvent, makes an assignment for the benefit of creditors, files a petition in bankruptcy, permits a petition in bankruptcy to be filed against it, presents a petition or has a petition presented by a creditor for its winding up, or enters into any liquidation or call any meeting of its creditors, or admits in writing that it is unable to pay its debts as they mature, or if a receiver or examiner is appointed for a substantial part of its assets and the foregoing is not cured within sixty (60) days from the date of the notice by the terminating Party.
- 24.2 Either Party shall be entitled to terminate this Agreement by written notice to the other Party, if such Party breaches any material provision of this Agreement and fails to cure such breach within thirty (30) Days of written notice describing the breach.
- 24.3 Kornit may terminate this Agreement for convenience upon one hundred and eighty (180) Days written notice to Sanmina. Sanmina may terminate this Agreement for convenience upon three hundred sixty-five (365) Days written notice to Kornit.

## 25. Effect of Termination

Upon expiration of termination of this Agreement for any reason the following provisions shall apply:

- 25.1 Sanmina will stop all work on outstanding Purchase Orders and incur no further direct costs. Kornit will have the option (solely in case of termination by Kornit for convenience) to request that Sanmina complete work in process pursuant to any Purchase Orders open on the date of termination and, in such case, Sanmina shall complete such work-in-process in accordance with the terms of the respective Purchase Order.
- 25.2 All outstanding Purchase Orders shall be deemed cancelled and Kornit shall purchase all affected Products and Inventories and shall pay Sanmina such amounts and costs as set forth in Section 11.2(b) above. In addition, Kornit shall be responsible for all Excess and Obsolete Inventories in accordance with the provisions of Sections 12,2 and 17 above. All payments under this Section shall be due in accordance with the payments terms set forth in Section 7.4 above. For the avoidance of doubt, it is hereby clarified that expiration or termination of this Agreement for any reason shall not affect the amounts due under this Agreement by either Party that exist as of the date of expiration or termination.

- 25.3 Each Party will return to the other, freight collect, all materials that contain the other's Confidential Information, including all manufacturing files of Kornit and all copies thereof and all documents or things containing any portion of any Confidential Information, or if the other Party gives written instructions to do so, destroy all such materials and copies thereof and all documents or things containing any portion of any Confidential Information, and provide the other a written certificate of destruction within thirty (30) days after such destruction. The foregoing obligation to return or destroy the other Party's Confidential Information shall not be applicable to any copies retained for the purpose of back up, disaster recovery or business continuity and, in such event, the protections under this Agreement shall continue in effect with respect to such retained copies for so long as such retained copies may exist.
- 25.4 Sanmina shall use commercially reasonable efforts to cancel without charge any outstanding purchase order with third party suppliers relating to this Agreement, unless otherwise requested by Kornit. Sanmina will advise Kornit if any affected third-party suppliers reject such a cancellation without charge.
- 25.5 Except as otherwise provided in this Agreement, neither Party shall be liable to the other Party hereto for damages, losses, indemnity, compensation or expenses of any kind or character whatsoever on account of the expiration or termination of this Agreement in accordance with the terms hereof, whether such damages, losses, costs or expenses arise from loss of prospective sales, or expenses incurred or investments made in connection with the establishment, development or maintenance of a Party's business, creation of goodwill, markets and customers for the Products or any other reason whatsoever. Notwithstanding anything to the contrary contained herein, expiration or termination of the Agreement shall not affect any claim, demand, liability or right of a Party arising pursuant to this Agreement prior to the expiration or termination hereof.
- 25.6 The obligations under sections 15, 18, 19, 20, 21, 22, 25, 28, 30, 33, 34, 35 and 36 will survive termination or expiration of the Agreement.

26. [RESERVED]

27. Relationship of Parties

Sanmina and its subcontractor(s) will be deemed to be independent contractors of Kornit, and this Agreement does not create a general agency, joint venture, partnership, employment relationship, or franchise between Sanmina and Kornit. Each Party assumes full responsibility for the actions and negligence of its employees, agents or other personnel assigned by it to perform work pursuant to this Agreement, regardless of their place of work, and will be solely responsible for payment of salary, including withholding of federal and state income taxes, social security, workers' compensation and the like.

28. Confidentiality

- 28.1 Definition. "Confidential Information" means: (i) the existence and terms of this Agreement except that the existence of this Agreement may be disclosed for purposes of enforcing the Agreement pursuant to Section 29 below; (ii) all information concerning the fees or costs for Products and Inventory; and (iii) all information, whether written or oral, and in any form (including, without limitation, engineering documents, research and development, manuals, reports, drawings, plans, flowcharts, software (in source or object code), program listings, data file printouts, printed circuit boards, processes, trade secrets, inventions, mask works, ideas, processes, formulas, source and object codes, data, programs, other works of authorship, knowhow, improvements, discoveries, developments, designs and techniques, information regarding plans for research and development, component part listings and prices, product information, marketing and selling plans, business plans, new product plans, budgets and unpublished financial statements, licenses, prices and costs, suppliers and customers, and information regarding the skills and compensation of employees or consultants of the) relating to a Party's business or technology which is disclosed by a Party either directly or indirectly to the other Party. In particular, but without limitation, the Specifications and the Product components delivered to Sanmina by Kornit will be the Confidential Information of Kornit and the information related to Sanmina's manufacturing processes, intellectual property, and subcontractors will be the Confidential Information of Sanmina.

- 28.2 Non-disclosure and Non-use. Each Party hereto (the “Receiving Party”) agrees not to use any Confidential Information of the other Party (the “Disclosing Party”) for any purpose, other than to perform its obligations hereunder, or disclose any Confidential Information of the other Party to any third party for any purpose. Each Party hereto shall use at least the same degree of care, but no less than reasonable care, to avoid disclosure or use of the Confidential Information of the other party as such Party employs with respect to its own Confidential Information of like importance. Without limitation of the foregoing, each Party agrees during the term of this Agreement and thereafter to hold such Confidential Information in strict confidence, not to disclose it to third parties or to use it in any way, commercially or otherwise, except as otherwise expressly authorized by this Agreement, and not to allow any unauthorized person access to such Confidential Information, either before or for a period of three (3) years after termination or expiration of this Agreement, without the prior written consent of the Disclosing Party. Each Party will limit the disclosure of the Confidential Information to employees with a need to know who: (i) have been advised of the confidential nature thereof and (ii) are parties to written agreements no less restrictive than this Section 28 as to the non-disclosure and nonuse of such Confidential Information.
- 28.3 Exceptions. Notwithstanding anything in this Agreement to the contrary, Confidential Information need not be treated as such if it is or has become:
- (a) published or otherwise available to the public other than by a breach of this Agreement;
  - (b) rightfully received by the Receiving Party from a third party without confidential limitation;
  - (c) approved in writing for public release by the Disclosing Party;
  - (d) known to the Receiving Party prior to its first receipt of such Confidential Information from the Disclosing Party, as properly documented by the Receiving Party’s files; or
  - (e) independently developed by the Receiving Party without use of or reference to such Confidential Information, as properly documented by the Receiving Party’s files,
- 28.4 Notwithstanding anything to the contrary herein, Receiving Party is free to make (and this Agreement does not restrict) disclosure of any Confidential Information to the extent legally required under mandatory applicable law in a judicial, legislative or administrative investigation or proceeding or otherwise; provided, however, that, to the extent permitted by law, Receiving Party provides to Disclosing Party prior written notice of the intended disclosure and permits Disclosing Party to intervene therein to protect its interests in the Confidential Information. In addition and notwithstanding anything in this Agreement to the contrary, Receiving Party may make any public disclosure to the extent legally required under the mandatory requirements of The NASDAQ Stock Market, the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, or any other securities legislation (including any applicable stock exchange rules).
- 28.5 Return of Confidential Information. Upon the termination or the expiration of this Agreement, each Party shall: (i) return to the other Party or destroy, as requested by the Disclosing Party, the original and all copies of any Confidential Information of the Disclosing Party and any summaries or analyses thereof or studies or notes thereon in the Receiving Party’s possession or control, with the exception of any copies required to be retained for back up, disaster recovery or business continuity and, in such event, such retained copies shall remain subject to the obligations and protections under this Section 28 for so long as such retained copies may exist; and (ii) at the Disclosing Party’s request, have one of the officers of the Receiving Party certify in writing that: (x) it shall not make any further use of such Confidential Information of the Disclosing Party; (y) it shall comply with the terms of this Section 28.5 regarding prohibited use of Confidential Information of the Disclosing Party; and (z) it has fully complied with the provisions of this Section 28.

28.6 Remedies. The Parties recognize and acknowledge that Confidential Information may have competitive value and be of a confidential nature and that irreparable damage might result to the Disclosing Party if such Confidential Information were improperly disclosed by a Receiving Party to a third party. Each Party agrees that monetary damages may be inadequate to compensate the other for breach of any provision of this Section 28, that any such breach or threatened breach may cause irreparable injury, and that, in addition to any other remedies available at law or in equity, the injured Party will be entitled to seek injunctive relief against the threatened breach or the continuation of any such breach.

28.7 Survival. The obligations of confidentiality and limitations of use, disclosure, and access set forth herein shall survive the termination of this Agreement for a period of three (3) years from the date of such termination.

### 29. Force Majeure

Neither Party will be liable or be deemed to be in default of this Agreement for delay in performance or nonperformance of any of obligations hereunder, in whole or in part (other than a payment obligation), if such performance is rendered impracticable by the occurrence of any contingency or condition beyond the control of non-performing Party, including without limitation war, sabotage, terrorism, embargo, riot or other civil commotion, failure or delay in transportation, labor dispute or strike (whether or not involving the non-performing Party's employees), accident, acts of God, fire, explosion, flood, earthquake, or other casualty, shortage of labor, fuel, energy, raw materials, supply of components from any source, or machinery or technical failure. If a Party is not able to perform due to such force majeure event within ninety (90) days after such event, the other Party may terminate this Agreement.

### 30. Governing Law; Disputes Resolutions

The laws of the State of Israel will govern this Agreement, excluding any conflicts of laws principles. The Parties hereby consent to the personal and exclusive jurisdiction and venue of the applicable courts of Tel Aviv. The provisions of the United Nations Conventions on Contracts for the International Sale of Goods shall not apply to this Agreement.

### 31. Subcontractors

Except to the subcontractors listed on Exhibit E hereto or as otherwise expressly set forth in this Agreement, Sanmina shall not without the express prior written consent of Kornit engage any third party subcontractor or agent to perform any part of its obligations under this Agreement or for the manufacturing of the whole or part of any Product. To the extent that Sanmina is permitted by Kornit to subcontract Sanmina shall: (i) only subcontract to a subcontractor that first agrees in writing to be bound by confidentiality obligations that are at least as restrictive as those set forth herein with respect to Confidential Information; and (ii) remain liable and responsible for any act or omission of a subcontractor that would constitute a breach of this Agreement if said act or omission were performed by Sanmina.

### 32. Assignability

This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors, assigns and legal representatives. Neither party shall have the right to assign or otherwise transfer its rights or obligations under this Agreement except with the prior written consent of the other Party, not to be unreasonably withheld. Notwithstanding the aforementioned, each Party may assign this Agreement to any of its Affiliates or to a successor to all or substantially all of its business or assets relating to this Agreement whether by sale, merger, operation of law or otherwise; provided that the respective assignee agrees to be bound by all terms and conditions of this Agreement and further provided that such assignee is not a direct competitor of the other Party. "Affiliates" shall mean, with respect to any Party, any corporation, partnership, joint venture or other legal entity that a Party to this Agreement controls, is controlled by, or is under common control with, where "control" means the ownership of more than fifty percent (50%) of the voting equity in such entity or otherwise the ability to direct the management of such entity.

**33. Notice**

All notices required or permitted under this Agreement shall be in writing and shall be deemed received (a) when delivered personally; (b) the first Business Day after being sent by facsimile or email, evidenced by electronic confirmation; (c) five (5) Business Days after having been sent by registered or certified mail, return receipt requested, postage prepaid; or (d) two (2) Business Days after deposit with a commercial overnight carrier. All communications shall be sent to the addresses set forth above or to such other address as may be designated by a Party by giving written notice to the other Party pursuant to this Section.

If to Kornit:

Kornit Digital Ltd.  
12 Ha'Amal St. Rosh Ha'Ayin Israel  
Attn: General Counsel and CFO Phone:  
039085801 Fax: 039080280 Email:  
legal@Kornit.com

If to SANMINA:

Sanmina-SCI Israel Medical Systems Ltd.  
5 Haroshet St.  
Ma'alot Tarshiha Israel  
Attn: Oren Naveh, Business Unit Manager  
oren.naveh@sanmina.com

With a copy to:  
SANMINA Corporation  
2700 N. First Street San  
Jose, California 95134  
Attn: EVP. Sales  
Phone: (408) 964-3500  
Fax: (408) 964-3636

SANMINA Corporation  
2700 N. First Street San  
Jose, California 95134  
Attn: Legal Department  
Phone: (408)964-3500  
Fax: (408) 964-3636

**34. No Waiver**

No waiver of any term or condition of this Agreement will be valid or binding on either Party unless the same will have been mutually assented to in writing by an officer of both Parties. The failure of either Party to enforce at any time any of the provisions of the Agreement, or the failure to require at any time performance by the other Party of any of the provisions of this Agreement, will in no way be construed to be a present or future waiver of such provisions, nor in any way affect the validity of either Party to enforce each and every such provision thereafter.

**35. Severability**

In the event that any provision of this Agreement is found to be entirely or partially invalid, illegal, or unenforceable, the validity, legality, and enforceability of any of the remaining provisions will not in any way be affected or impaired and a valid, legal, and enforceable provision of similar intent and economic impact will be substituted therefore.

**36. Entire Agreement**

This Agreement consists of the terms and conditions stated above, including the Exhibits, is the entire Agreement between the Parties. This Agreement supersedes all proposals, oral or written, all negotiations, conversations, or discussions between or among Parties relating to the subject matter of this Agreement and all past dealing or industry custom. Any term, condition or other provision in any Purchase Order, quotation, confirmation, document, or other oral or written communication that is in any way inconsistent or in conflict with or in addition to Agreement will be void and is hereby expressly rejected by Kornit and Sanmina, unless agreed upon in writing and signed for and on behalf of both Parties. In the event of any conflict between this Agreement and any other exhibit thereto, this Agreement shall control.



### 37. Insurance.

- 37.1 Without derogating from Sanmina's liability pursuant to this Agreement and/or in accordance to any applicable law, Sanmina undertakes to procure and maintain, at its expense, with a duly authorized and reputable insurance Company having an S&P and/or A.M. Best rating of not less than A-, or equivalent, throughout the entire period of application of this Agreement, and regarding policies that are "claims made" for a period during which Sanmina is held liable (whether by law or under this Agreement), all the necessary and customary insurances, including but without derogating from the above insurances as set out in the form of certificate of insurance attached as Exhibit F constituting an integral part of this Agreement (hereinafter: the "Certificate of Insurance"), and as set out below (hereinafter: "Sanmina's insurances"):
- (a) All Risks Heavy Equipment Insurance for heavy equipment used by Sanmina and/or any one on its behalf in connection with the Agreement.
  - (b) Compulsory Insurance, Liability Insurance as a result of Use of Vehicles and Motor Comprehensive Insurance as required by law for bodily injury as a result of use of a vehicle that Sanmina and/or any one on its behalf owns or uses in connection with the Agreement.
  - (c) The Insurances stated in section (a) and (b) above shall include a waiver of the right of subrogation against Kornit and/or its subsidiaries, parent Companies, affiliated Companies and/or anyone on their behalf and shall name Kornit and/or its subsidiaries, parent Companies, affiliated Companies and/or anyone on their behalf and/or acting in their name as additional Insureds.
- 37.2 Sanmina alone is responsible for payment of the premiums and the deductibles stated in Sanmina's insurances.
- 37.3 If any of Sanmina's insurances are on claims-made basis, the policies shall apply retroactively from the date of commencement of the Agreement, even if this date is prior to the inception date of the policy. The policies shall be subject to an Extended Discovery Period of damages and claims for an additional period of [\*\*\*], following the expiry date of the Policy.
- 37.4 Determination of the limits of liability as detailed above and/or in the Insurance Certificate is construed to be a minimum requirement imposed upon Sanmina, which does not derogate from its liability according to this Agreement and/or any applicable law.
- 37.5 Sanmina may obtain and maintain any supplementary and/or additional insurance policies at its own expense. Any such additional and/or supplementary insurance cover as aforementioned, shall include a waiver of the right of subrogation against Kornit and/or its subsidiaries, parent Companies, affiliated Companies and/or anyone on their behalf. Any supplementary and/or additional Liability Insurance shall be extended to indemnify Kornit and/or any of the abovementioned parties for their liability for acts and/or omissions of Sanmina and/or anyone on its behalf, subject to a cross liability clause.
- 37.6 Sanmina shall deliver to Kornit, not later than 15 days before the commencement date of this Agreement, the Insurance Certificate attached as Annex X to this Agreement, duly signed by its Insurer. Prior to the expiry date of the Sanmina's Insurances, Sanmina shall deliver the duly signed Insurance Certificate in respect of the updated Insurance period, and continue to do so for the duration of the entire Agreement period (and for any additional period as mentioned in clause 37.1 above). Kornit shall be entitled to prevent Sanmina from continuing to provide the Services and/or perform the Orders in the event that the aforesaid certificate is not issued on time. It is agreed that Sanmina shall be estopped from making any claim against Kornit and/or its subsidiaries, parent Companies, affiliated Companies and/or anyone on their behalf due to not being able to commence and/or continue provision of the Services and/or performance of the Orders prior to issue of the certificate, as aforesaid

37.7 Sanmina shall not have any allegation and/or demand and/or claim against Kornit and/or its subsidiaries, parent Companies, affiliated Companies and/or anyone on their behalf, in respect of any damage to any property (including but not limited to the Product and/or the buildings used for manufacturing of the Product) owned and/or in the responsibility of and/or used by Sanmina and/or any one on its behalf or acting in its name including Consequential Loss. The foregoing shall not apply in favor of any person who caused the damage maliciously.

37.8 Without derogating from Sanmina's liability pursuant to this Agreement and/or in accordance to any applicable law, Sanmina undertakes that when entering into any agreement with subcontractors as part of and/or in connection with the Agreement, Sanmina shall be responsible to include a clause in the contractual agreements according to which the subcontractors undertake to arrange and maintain the same insurance policies that Sanmina is obligated to effect and maintain according to this Agreement, with all of the conditions as detailed in this Agreement including Exhibit F and this for the entire Agreement period with Sanmina or for any additional period as defined in section 37.1.

37.9 Sanmina undertakes to give notice, to Kornit promptly, in writing, of the occurrence of any event and/or damage and/or loss.

**38. Use of Sanmina or Kornit Name is Prohibited**

Neither Party may use the other Party's name or identity or any other Confidential Information in any advertising, promotion or other public announcement (other than to the extent legally required under the mandatory requirements of The NASDAQ Stock Market, the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, or any other securities legislation (including any applicable stock exchange rules) without the prior express written consent of the other Party.

**39. Counterparts and Exchange of Signatures**

This Agreement may be executed in counterparts. The Parties agree that electronically transmitted and reproduced signatures (including faxed pages, scanned copies of signatures and email acknowledgements) constitute acceptable exchange of authentic consent to the terms and conditions of this Agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year, first above written.

Kornit Digital Technologies Ltd.:

Signed: /s/ Guy Avidan

Print Name: Guy Avidan

Title: CFO

Signed: /s/ Ilan Givon

Print Name: Ilan Givon

Title: VP

Operation

Sanmina-SCI Israel Medical Systems Ltd.

Signed: \_\_\_\_\_

Print Name:

Title:

Signed: /s/ Nir Marko

Print Name: Nir Marko

Title: VP

Business Development

EXHIBIT A  
Reserved

EXHIBIT B  
CONSIGNED TOOLING AND EQUIPMENT

EXHIBIT C1 - QUALITY AGREEMENT

kornit's Supplier  
Quality Requirements

## EXHIBIT C2 - SAFETY AGREEMENT

### 1. General

Sanmina-SCI Israel Medical Systems Ltd. (the "Contractor")  
Kornit Digital Technologies Ltd. ("Kornit")

Contractor shall hold all approvals and licenses required by law, including business approval which will include approval from the fire department and the Israeli Ministry of Environmental Protection and the Safety Administration at the Ministry of Labor, Social Affairs and Social Services.

### 2. Safety

2.1 Contractor represents and warrants that it is familiar with all safety and environmental requirements applicable to it according to law which are relevant for the conduct of his services and that it will abide by such requirements. The Contractor also represents and warrants that it is familiar with Kornit's safety requirements and that it will abide by them. The Contractor undertakes to conduct its services in strict compliance with all applicable safety and environmental requirements and shall make sure its employees abide by such requirements as well. Kornit shall not be required to supervise the Contractor's or its employees' compliance with such requirements.

2.2 The Contractor take, at its expense, all safety measurements which are required by law, such as: fencing, signs, guard, safety accessories, lightning, etc. The Contractor shall be responsible for all damages caused due to any breach of safety requirements required by law and/or safety rudiments provided by Kornit.

2.3 In the event that the Contractor shall conduct some of its services at Kornit's premises, the Contractor shall ensure that such services will not interfere with other work which is being conducted by Kornit or its contractors and shall not disrupt such work. The Contractor shall ensure that its personnel shall keep all of Kornit's safety procedures at such premises and that they shall pass all necessary safety training required by Kornit.

2.4 Each person employed by the Contractor shall be required to read and sign a safety training form with respect to the specific product he/she is supposed to assemble, which will be provided by Kornit, and provide Kornit with such signed approval.

### 3. Work Accident

3.1 The Contractor shall immediately report Kornit of any work accident occurred during the provision of its services to Kornit.

3.2 The Contractor shall be responsible for any and all damages caused to its employees or service providers due to a work accident.

3.3 Any recess in the work due to a work accident shall not derogate from Contractor's obligation to provide the services, in accordance with the agreed upon time schedule.

EXHIBIT D - PRODUCT SPECIFICATIONS

Add



EXHIBIT E – AUTHORIZED SUBCONTRACTORS

None.

EXHIBIT F - CERTIFICATE OF INSURANCE

Date:

To:

Kornit Digital Ltd. and/or its Parent Companies and/or its subsidiaries and/or affiliated companies 12 Ha'Amal St., Afek Park, Rosh-Ha'Ayin 4809246, Israel (Hereinafter jointly and severally: "Kornit")

**RE: SANMINA's Insurance Certificate**

We hereby confirm that we have arranged the insurance policies detailed hereunder in the name of \_\_\_\_\_ Ltd. (hereinafter: "SANMINA") in connection with manufacturing of digital printers known as "Avalanche 1000R" and "Storm Hexa" or any other product and/or associated services in connection to the agreement between Kornit and SANMINA (hereinafter: "the Services" and "the Product") for the period commencing on \_\_\_\_\_ and expiring on \_\_\_\_\_ (hereinafter: "Period of Insurance"):

1. Property insurance - "Ail Risks"/"Fire Extended" Insurance for any property (including but not limited to the Product and/or buildings used for development, production, and manufacturing of the Product) and/or equipment owned and/or that is in the possession of and/or under the responsibility and/or custody and/or care and/or control of SANMINA and/or that is in use in connection to the Agreement, to its full value and at full reinstatement value against all customary risks covered by an "All risks"/"Fire Extended" Policy, including but not limited to: fire, smoke, lightning, explosion, earthquake, storm, tempest, water damage and burst pipes, impact, injury from a vehicle, injury from aircraft, strikes, disturbances, malicious damage, burglary. Kornit is named as the sole beneficiary in respect of any indemnification for any loss and/or damage to any and all of its properly including the product. Any Indemnifications shall be paid to Kornit and/or to any party which Kornit shall order in writing.
2. Employers' Liability Insurance - covering SANMINA's legal liability towards all individuals employed by it respect of death and/or bodily injury and/or mental illness to any employee as a consequence of an accident or illness during and/or due to the provision of the Services, with a limit of liability of \$[\*\*\*] per injured party, per occurrence and in the aggregate period of insurance. The insurance is not subject to any restriction regarding work hours, work at heights or depths, contractors, subcontractors and their employees, the employment of youth. The insurance is extended to include Kornit and/or its employees and/or managers as additional insureds in the event that they are construed to be the employer of any of the SANMINA's employees.
3. Third Party Liability Insurance - covering SANMINA's legal liability in respect of injury and/or loss and/or damage caused to the body and/or property of any individual and/or any entity including Kornit and/or any party acting on its behalf, in connection with and/or in the framework of the provision of the Services, with a limit of liability of \$[\*\*\*] per occurrence and in the aggregate period of insurance. The insurance is not subject to any restriction in respect of liability arising from fire, panic, explosion, lifting installation, loading and unloading, poisoning, any harmful material in food or beverages, riots and strikes, liability in respect of and towards contractors, subcontractors and their employees as well as claims by the National Insurance Institute. Kornit's property shall be considered as third party. The insurance is extended to include Korn it and/or its employees and/or managers as additional insureds in respect of their liability for errors and/or omissions of SANMINA and/or anyone acting on its behalf, subject to a cross liability clause.

4. Professional Indemnity Insurance - covering SANMINA's legal liability in respect of a professional error and/or omission and or breach of professional duty and/or error whose origin is in negligence, error, fault or omission of SANMINA and/or any party acting on its behalf and/or for it and/or as its delegate, which occurs during and/or due to and/or in the course of and/or in the framework of the provision of the Services, with a limit of liability of \$[\*\*\*] per occurrence and in the aggregate period of insurance. The insurance as aforementioned is extended to include Kornit and/or its employees and/or managers as additional insureds, in respect of their liability for errors and/or omissions of SANMINA and/or anyone on its behalf and/or in its name, subject to a cross liability clause. The insurance is free of any exclusion or limitation regarding: loss of documents, loss of use, delay and/or postponement in the performance of the Services, planning and supervision, violation of intellectual property rights, violation of the Duty of Confidentiality, libel and slander, financial/consequential loss. The insurance is extended to cover the liability of SANMINA in respect of dishonesty of employees and breach of authority.
5. Products Liability Insurance - covering SANMINA's legal liability in respect of bodily injury and/or property damage due to and/or in connection to a product manufactured, installed, assembled, marketed, packed, labeled, supplied or handled in any other way by SANMINA and/or anyone on its behalf including the Product (hereinafter: "The Products") with a limit of liability of \$[\*\*\*] per claim and in the aggregate for the period of insurance. The insurance will be extended to cover products recall in the sum of \$[\*\*\*]. The insurance as aforementioned is extended to include Kornit and/or its employees and/or managers as additional insureds, in respect of their liability in connection to the product, subject to a cross liability clause

General conditions:

- (a) The insurance policies specified above in sections 4 and 5, shall be applicable retroactively from the date on which SANMINA commences providing any services in connection with the Agreement, even if such activity commenced before the Agreement was signed, but not before \_\_\_\_\_. In the event that any of the said insurance policies is cancelled or is not renewed, it is agreed that the policies include an extended discovery period of 12 months after the date of expiry of the insurance periods.
- (b) All insurance Policies above contain an explicit clause in pursuance of which we waive the right of subrogation against Kornit and/or anyone acting on its behalf. Such waiver shall not apply in favor of any person who caused the damage maliciously.
- (c) SANMINA alone is responsible for payment of the premiums and the deductibles stated in the insurance policies detailed above.
- (d) The aforementioned insurance policies contain an express clause according to which these insurance policies are primary to any other insurance arranged by Kornit and/or any party acting on its behalf and that we waive any demand and/or allegation regarding contribution by the insurance policies of Kornit and/or any party acting on its behalf.
- (e) We hereby confirm that noncompliance with the duties imposed upon the insured in good faith in the aforementioned insurance policies, and/or a breach of any of the policy terms and/or conditions shall not prejudice the rights of Kornit to receive indemnity.
- (f) SANMINA's insurance policies include a worldwide territorial limits and jurisdiction cover (including U.S.A and Canada).
- (g) It is hereby expressly agreed that the wordings of SANMINA's insurance policies, other than the Professional liability Insurance, will not be inferior to the policy wordings known as BIT subject to the alterations detailed above (The policies shall not include any exclusion in respect of Insured's conduct deviating from a reasonable Insured's conduct, including gross negligence and/or recklessness and/or carelessness and/or breach of duty of care).

Subject to the original policies' conditions and exclusions, insofar as they have not been altered expressly by that stated in this certificate.

Yours sincerely

Insurer's signature and stamp

Name and position of signatory

## EXHIBIT G - SANMINA MATERIAL ORDERING POLICIES

A. Initial Forecast. Customer shall provide Sanmina with an initial sixty (60) day firm purchase order (“Order”) and forecast for Product requirements (in monthly buckets) for an additional six (6) months (“Forecast”). The Order - and all subsequent Orders - shall be binding and may be rescheduled only in accordance with Section D, below. Sanmina shall make purchase commitments based on their quoted lead times, “Just In Time” and “Late as Possible” best practices (including purchase commitments for Long Lead-time Components) to its Component suppliers (“Vendors”) based upon the Order and Forecast, and Customer shall be responsible for all such Components purchased in support of Customer’s then-current Forecast. For all other purposes, however, the Forecast shall be non-binding.

B. Subsequent Forecasts. On the first business day of each calendar month after the initial Order and Forecast, the first Forecast month shall automatically become part of the Order, a new Forecast month shall be added, and a new firm Order issued, so that a rolling Order of sixty (60) days is always maintained.

### C. Material Requirement Planning Process.

1. Sanmina shall take the Order and Forecast and generate a Master Production Schedule (“MPS”) for a twelve-month period in accordance with the process described in this Section. The MPS shall define the master plan on which Sanmina shall base its procurement, internal capacity projections and commitments. Sanmina shall use Customer’s Order to generate the first two (60) days of the MPS and shall use Customer’s Forecast to generate the subsequent six (6) months of the MPS.

2. Sanmina shall process the MPS through industry-standard software that will break down Customer’s Product requirements into Component requirements. When no Product testing (in-circuit or functional testing) is required by Customer, Sanmina will use commercially reasonable efforts to schedule delivery of all Components to Sanmina eleven working days before the Products are scheduled to ship to Customer; in the event Product testing is required, Sanmina will use commercially reasonable efforts to schedule delivery of all Components to Sanmina sixteen working days before the Products are scheduled to ship to Customer.

3. Sanmina will release purchase orders to Vendors prior to the anticipated date that the Components are needed by Sanmina. The date on which these orders are released will depend on the lead time determined between the Vendor and Sanmina and Sanmina’s manufacturing or materials planning systems.

4. A list of all Components with lead times greater than ninety days (“Long Lead-time Components”) shall be provided. Sanmina shall update the list of Long Lead-time Components every quarter and present an updated list of Long Lead-time Components to Customer at the time Sanmina presents the Customer with the E&O List described in Section E, below. Each revised Long Lead-time Item list shall be deemed an amendment to Exhibit B. It is Sanmina’s responsibility to update Komit with any extended lead time or changes in the standard lead time of BOM components.

5. Customer acknowledges that Sanmina will order Components in quantities sufficient to support up to six months of Customer’s Forecast, based on quoted lead time and late as possible best known method. In determining the quantity of Components to order, Sanmina divides the Components into three classes, “Class A,” “Class B” and “Class C.” Class A Components are comprised of the approximately [\*\*\*] ([\*\*\*]%) of Components constituting approximately [\*\*\*] ([\*\*\*]%) of the Product’s total Component cost. Class C Components are comprised of the approximately [\*\*\*] ([\*\*\*]%) of Components constituting approximately [\*\*\*] ([\*\*\*]%) of the Product Cost. Class B Components are comprised of the remaining [\*\*\*] ([\*\*\*]%) of Components constituting approximately [\*\*\*] ([\*\*\*]%) of the Products cost. Sanmina will place orders with its Vendors for approximately [\*\*\*] worth of Class A Components, [\*\*\*] worth of Class B Components and [\*\*\*] worth of Class C Components.

A summary of Sanmina’s purchase commitments is set forth in the table below.

<b>Part Class</b>	<b>Expected Percentage of Total Parts</b>	<b>Expected Percentage of Total Value (of Gross Requirements)</b>	<b>Periods Worth of Supply to be Bought with Each Order</b>
A	[***]	[***]	[***]
B	[***]	[***]	[***]
C	[***]	[***]	[***]

6. Customer acknowledges that Sanmina will be required to order Components in accordance with the various minimum buy quantities, tape and reel quantities, and multiples of packaging quantities required by the Vendor. In addition, Customer acknowledges that there is a lag time between any Customer cancellation and the cancellation of the Components required to support production.

D. Reschedules. Customer may reschedule all or part of a scheduled delivery [\*\*\*] per [\*\*\*] for a period not to exceed [\*\*\*] in accordance with the table below. At the end of this [\*\*\*] period, Customer shall either accept delivery of rescheduled finished units and/or pay the Sanmina’s Delivered Cost (as defined in Section E below) associated with rescheduled units not yet built.

<b>Days Before P.O. Delivery Date</b>	<b>Percentage Reschedule Allowance</b>
[***]	[***]
[***]	[***]
[***]	[***]
[***]	[***]

Sanmina shall use reasonable commercial efforts to accommodate any upside schedule changes beyond the firm Order periods.

E. Excess and Obsolete Inventory.

(i) Definitions:

a. “Delivered Cost” shall mean SANMINA’s quoted cost of Components as stated on the bill of materials, plus a materials margin equal to [\*\*\*] ([\*\*\*]%).

b. “Excess Components” means the Components that SANMINA has on hand, which have been ordered, manufactured, or acquired based on CUSTOMER’S then-current Forecast or Orders, but for which CUSTOMER has no demand in the [\*\*\*] period following the end of each calendar quarter.

c. “Obsolete Components” means: the quantity of Components that SANMINA has on hand, which have been ordered, manufactured, or acquired based on CUSTOMER’S then-current Forecast or Order, but which SANMINA no longer requires as a result of (i) CUSTOMER’S announcement or notification that the Product into which such Component is incorporated has reached its end of life, (ii) a change in the specification the Product into which the Component is incorporated as a result of an Engineering Change Notice or otherwise; or (iii) Section E (vii) below.

(ii) Within five (5) business days after receiving CUSTOMER’S first Forecast or Order of the first month following the end of each calendar quarter (but no later than the fifteenth business day following the end of each of SANMINA’s calendar quarters), SANMINA shall advise CUSTOMER in writing of any Excess Components and their Delivered Cost (the “Excess List”). Notwithstanding the foregoing, SANMINA’s failure to timely provide the Excess List to CUSTOMER shall not affect CUSTOMER’S obligations hereunder.

(iii) Within [\*\*\*] of receiving SANMINA's Excess List, CUSTOMER shall advise SANMINA of any Component on the Excess List that it believes is not excess, and the parties shall work together in good faith to resolve any outstanding issues.

(iv) Within [\*\*\*] of CUSTOMER'S issuance of its response to the Excess List, CUSTOMER and SANMINA will agree on the disposition of the Excess List on a part number-by-part number basis (hereafter the "Mutually Agreed Excess") and shall enter into transactions as defined below to settle the Mutually Agreed Excess.

(v) Within [\*\*\*] of the parties' agreement on the Mutually Agreed Excess, CUSTOMER will pay SANMINA the amount equal to the Mutually Agreed Excess. SANMINA will credit these funds to the CUSTOMER'S "Offset Inventory Reserve Account" which has been established as a "contra-asset" to CUSTOMER'S obligations under this Section E.

(vi) The parties shall use the processes set forth in Sections (i) through (v) above at the end of each calendar quarter to determine the "new" Mutually Agreed Excess for the end of each subsequent calendar quarter. The parties will then compare the prior quarter's Offset Inventory Reserve Account with the "new" Mutually Agreed Excess amount. If the new Mutually Agreed Excess is greater than the Offset Inventory Reserve Account, then CUSTOMER shall, within [\*\*\*], pay the difference to SANMINA, who shall credit the funds to the Offset Reserve Account. If the new Mutually Agreed Excess is less than the Offset Inventory Reserve Account, then SANMINA shall, within ten (10) business days, refund the difference to CUSTOMER.

(vii) Excess Components shall be kept in the Offset Inventory Reserve Account for a maximum period of [\*\*\*], at which time such Excess Components will be deemed to be Obsolete Components, and handled in accordance with Section (viii) below.

(viii) To the extent that any of the amount in the CUSTOMER'S Offset Inventory Reserve Account relates to any Obsolete Component (e.g., the Obsolete Component was formerly included in the Excess List, and CUSTOMER included that Component in its funding of the Offset Inventory Reserve Account), SANMINA shall debit the Offset Inventory Reserve Account in the amount of the Delivered Cost of such Component. In the event the CUSTOMER'S Offset Inventory Reserve Account does not include funding for any Obsolete Component (e.g., the Component was recently rendered obsolete as a result of a design change), SANMINA shall invoice CUSTOMER for the Delivered Cost of the Obsolete Component, CUSTOMER shall pay SANMINA's invoice within [\*\*\*] business days after the date of invoice. SANMINA will ship or dispose of the Obsolete Component in accordance with the CUSTOMER'S instructions.

#### F. Customer Component Liability.

Customer acknowledges that it shall be financially liable for all Components ordered in accordance with these Policies. Specifically, Customer's Component liability shall be equal to Sanmina's Delivered Cost of all Components ordered in support of any Order or Forecast, including any Excess Components resulting from any minimum buy quantities, tape and reel quantities, and multiples of packaging quantities required by the Vendor less the actual cost (per the bill of materials) of those Components which are returnable to Vendor (less any cancellation or restocking charges). At Customer's request, Sanmina shall use commercially reasonable efforts to minimize Customer's Component liability by attempting to return Components to the Vendor; provided, however, that Sanmina shall not be obligated to attempt to return to Vendor Components which are, in the aggregate, worth less than [\*\*\*]. Customer guarantees the obligations of each of its subsidiaries or affiliates that places Orders or Forecasts pursuant to this Agreement, and agrees to be jointly liable for all such obligations.

## SUBSIDIARIES OF KORNIT DIGITAL LTD.

<b>Name of Subsidiary</b>	<b>Jurisdiction of Organization</b>	<b>Ownership Interest</b>
Kornit Digital Technologies Ltd.	Israel	100%
Kornit Digital North America Inc.	Delaware	100%
Kornit Digital Europe GmbH	Germany	100%
Kornit Digital Asia Pacific Limited.	Hong Kong	100%
Kornit Digital UK Ltd	England and Wales	100%
Kornit Digital Japan KK	Japan	100%

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO  
EXCHANGE ACT RULE 13A-14(A)/15D-14(A)  
AS ADOPTED PURSUANT TO SECTION 302  
OF THE SARBANES-OXLEY ACT OF 2002**

I, Ronen Samuel, certify that:

1. I have reviewed this annual report on Form 20-F of Kornit Digital 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (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 officer 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: March 23, 2020

By: /s/ Ronen Samuel

Ronen Samuel  
Chief Executive Officer  
(Principal Executive Officer)



**CERTIFICATION PURSUANT TO  
EXCHANGE ACT RULE 13A-14(A)/15D-14(A)  
AS ADOPTED PURSUANT TO SECTION 302  
OF THE SARBANES-OXLEY ACT OF 2002**

I, Guy Avidan, certify that:

1. I have reviewed this annual report on Form 20-F of Kornit Digital 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
- (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 officer(s) 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: March 23, 2020

By: /s/ Guy Avidan

Guy Avidan  
Chief Financial Officer  
(Principal Financial Officer and  
Principal Accounting Officer)

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER  
PURSUANT TO RULE 13a-14(b)/RULE 15d-14(b) UNDER THE EXCHANGE ACT AND 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Kornit Digital Ltd. (the “**Company**”) on Form 20-F for the fiscal year ended December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “**Report**”), we, Ronen Samuel, as Chief Executive Officer of the Company, and Guy Avidan, as Chief Financial Officer of the Company, each certify in such respective capacity, pursuant to Rule 13a-14(b)/Rule 15d-14(b) under the Securities Exchange Act of 1934, as amended and 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, 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.

Dated: March 23, 2020

By: /s/ Ronen Samuel

Ronen Samuel  
Chief Executive Officer  
(Principal Executive Officer)

By: /s/ Guy Avidan

Guy Avidan  
Chief Financial Officer  
(Principal Financial Officer and  
Principal Accounting Officer)

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in the Registration Statements (Form S-8 No.'s 333-203970, 333-214015, 333-217039, 333-223794 and 333-230567), Registration Statement (Form F-3 No. 333-232070) and in the related prospectuses of our reports dated March 23, 2020, with respect to the consolidated financial statements of Kornit Digital Ltd. and its subsidiaries and the effectiveness of internal control over financial reporting of Kornit Digital Ltd. and its subsidiaries included in this Annual Report (Form 20-F) for the year ended December 31, 2019.

Tel Aviv, Israel  
March 23, 2020

/s/ KOST FORER GABBAY & KASIERER

KOST FORER GABBAY & KASIERER

A Member of Ernst & Young Global